

BISOCIALISM

Oliver R. Trowbridge

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BISOCIALISM

THE REIGN OF THE
MAN AT THE MARGIN

BY

OLIVER R. TROWBRIDGE

If any man is able to convince me or show me that I do not think right, I will gladly change, for I seek the truth, by which no man was ever injured.

—*Marcus Aurelius.*

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OLIVER R. TROWBRIDGE.

RBR

T. 1578

To my wife,

Alice C. Trowbridge,

whose labor and sacrifices have made its
publication possible, this book
is gratefully dedicated.

500408

P R E F A C E

When a boy thirteen years of age residing on a farm in central Illinois, I one day read in a Chicago paper a discussion concerning the hard times of 1873, in which some reference was made to "the present conflict between capital and labor." I do not remember any other part of the discussion, but these words attracted my attention and became fixed in my memory. At that time I had never seen a work on Political Economy, and it is doubtful if I had ever heard the term *political economy* used. However, I set myself to work upon the question of the seeming conflict between capital and labor referred to in the newspaper discussion. I do not know just how long I pondered over it, without any guidance but my own limited experience, but while still a boy I came to a decision upon the subject and formulated it in these words: "Naturally there is, and logically there can be, no conflict between capital and labor." From this conclusion I have never departed.

Some time after this I began to have access to books upon the subject of Political Economy and read even the

dryest of them with avidity. In the summer of 1883 I read Henry George's *Progress and Poverty*, an original work of great power and clearness, in which was first elaborated the doctrine of taking ground rent for public revenue. In 1892 I became acquainted, through translations and reviews, with the works of the Austrian economists. From them I received the suggestion that primarily value is not a matter of labor cost, but of utility. Their discussions, while purely theoretical and in many ways unsatisfactory and incomplete, led me to develop and apply to economic conditions the theory of value presented in the following pages. The illustrations used in Chapter IV of Part I in the analysis of utility and disutility are taken largely from the writings of the Austrian school.

I began writing this book ten and a half years ago. For a long time I clung to many of the terms and definitions, and to some of the doctrines of standard Political Economy, but was finally forced to abandon nearly all of them and to invent terms and to formulate definitions as well as doctrines distinctively my own. For this I offer no apology. It was not done merely in order to present something new, or something old in a new form, but because new thoughts and principles were necessary and could not be stated adequately with the old terms and in

the old way. Of about one hundred economic terms specifically defined or definitely used in these pages, nearly one-half are original in nomenclature and practically all in definition or application. All of the new terms, however, are such as tend to explain or define themselves.

To those friends who have so cheerfully and loyally assisted me in the preparation of this work, I desire to express my heartfelt thanks and appreciation.

July 4, 1903.

OLIVER R. TROWBRIDGE.

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PART I
ECONOMICS

Make for thyself a definition or description of the thing which is presented to thee, so as to see distinctly what kind of a thing it is in its substance, in its nudity, in its complete entirety, and tell thyself its proper name, and the names of the things of which it has been compounded, and into which it will be resolved. For nothing is so productive of elevation of mind as to be able to examine methodically and truly every object which is presented to thee in life, and always to look at things so as to see at the same time what kind of universe this is, and what value everything has with reference to the whole, and what with reference to man.

Marcus Aurelius.

BISOCIALISM

PART I

ECONOMICS

CHAPTER I.

OF THE ECONOMIC PROBLEM.

My soul is sick with every day's report
Of wrong and outrage with which earth is filled.

Cowper.

A new and fair division of the goods and rights of this world should be the main object of those who conduct human affairs.

De Tocqueville.

The young man of to-day who stands upon the threshold of business life is confronted by a serious problem. If he chooses a professional career, he sees before him a long and expensive course of preparation which, as a rule, only those can take who have unusual advantages of education or financial support. Yet when he completes this preparation he finds himself to be only one of a multitude, apparently, of young men for whom there seem to be no available opportunities. If he chooses a commercial career, he sees but small chance for a man of no

means or of only moderate means to engage in any pursuit with reasonable hope of success. Statisticians of repute tell him that of all business enterprises undertaken over 95 per cent ultimately fail. If he has no financial means or but small means at his command, his only prospect seems to be a life of salaried service in the employment of another—probably in the employment of a great corporation. If he turns from these professional and commercial prospects to till the soil, he is met, where farming is most profitable, by a demand for approximately one-half of all he can earn, one year with another, for the privilege of tilling a given piece of ground—for the mere privilege of living and working upon the earth.

The problem which faces the average man of middle age is almost as serious as that which confronts the man who is just beginning to meet life's responsibilities. If a man in middle life has a profession, he sees the field becoming crowded with young men just out of school; and while these competitors themselves scarcely live, they secure enough business to cut down his income, or at least to prevent it from increasing as formerly. If he is a merchant, he sees his trade gradually dwindling away because of the department store and the mail order house with which he must compete with odds against him. If he is a small manufacturer, he sees himself giving way little by little before the merciless competition of the trust. If a tenant farmer, he sees his rents rising year by year, while the increase in the price of lands makes it more difficult for him to secure even a small farm of his own. If he is a wage earner, he realizes that his position be-

comes more precarious every day, and that to lose his employment is a calamity most fearful for himself and those dependent upon him to contemplate.

But of all persons who must live by their labor from year to year the man who is approaching old age has most to dread. In the economy of the present day there is no place for the old man. Although he may have served faithfully for thirty or even forty years, he fears more and more as the weeks go by that with the next pay envelope he will receive the notice, becoming well nigh inevitable, that his services are no longer needed. He looks forward to the time when, like an old horse, he will be turned out to die.

In such circumstances it is not strange that men are discussing as never before the evils which now befall the masses, and that they ask of Economic Science some explanation of the origin of these evils and demand of it a remedy. In vain has workman delved, inventor planned, and scientist sought the laws of force and life; in vain has patriot died and statesman wrought unless the economist shall solve the problem which confronts him. People see readily enough that the miseries of the established order can not be for lack of sufficient property for all, because while many are in want, or in dire fear of want, a few persons are possessed of fortunes beyond the dreams of avarice.

The conviction is growing among all the classes we have considered that the trouble lies in the laws which affect the distribution of property. But when they turn to Economic Science for a satisfactory solution of this

matter, they are confronted by so many divergent and conflicting theories upon every phase of every question that they are likely to become discouraged and to conclude that a clear and complete solution of economic problems is impossible. They find not only that different writers uphold different theories, but, with one or two notable exceptions, given writers upon economic subjects uphold theories upon various phases of their themes which are utterly inconsistent with one another. It seems impossible to take the writings of any writer or school of writers upon economic subjects, and from such writings frame a complete treatise of Economic Science consistent in all its parts. Yet when fully analyzed all theories which have been or may hereafter be advanced along economic lines may be classified as supporting one of three schools of thought. All such theories are either anarchistic in their tendencies, or they tend to support the established order substantially as it exists, or they tend to support some form of socialism.

In a later chapter we shall ascertain the proper scope of Economic Science, and define and distinguish its two branches—Economics and Political Economy. For the present it is sufficient to say that the general subject which we are to pursue has to do with the question, What should be the policy of the State with reference to the institution of property? This is the economic problem. By the "State" we mean throughout this discussion the body politic commonly called the Government, whether this body politic manifests itself in the nation, the political division called a state, or territory, or prov-

ince, or any subdivision of these, such as county, city or other municipality. By the "institution of property" we mean property with reference to its legal status—the sum total of what we usually call property rights under the law. The State determines what shall be deemed property, fixes and regulates the tenure by which it is held, and undertakes to protect the owner of property in the enjoyment thereof.

Viewed as a whole, Economic Science presents a double aspect. Upon the one hand it raises questions concerning the nature, the proper sphere and functions of government, and even of its *raison d'etre* (reason for existence). Upon the other hand it raises two fundamental questions concerning the legal status of property; first, What things are rightfully the subject of property? and, second, What should be the policy of the State with reference to the individualization or socialization, or both, of those things which are rightfully the subject of property?

From the first point of view the most fundamental question raised by our inquiry is that of the *raison d'etre* of government. Upon this question all men are divided into two classes; they are either anarchists or government-alists.

Were it not for the mistaken notions which prevail even among persons generally well informed concerning anarchists and anarchism, we should pass these people and their doctrines without discussion. As it is, we are impelled to say that anarchists themselves are divided into two classes as different from each other as light from darkness. They all see the evils of misgovernment, past

and present, and conclude that these evils are inherent attributes of every form of government, and that the only remedy is the abolition of all government. They agree, also, that all government is based solely upon physical force. But here they part. One class believes in opposing force with force, and some individuals even believe in removing rulers by assassination. These anarchists of the sanguinary type we shall call revolutionary anarchists. They are comparatively few in number, but their occasional deeds of violence, especially against the heads of governments, give them and their doctrines great prominence, and all anarchists are indiscriminately condemned along with them in the public mind.

The other class of anarchists take an exactly opposite view of the situation. Being opposed to government because it is based, as they maintain, upon physical force, they do not deem it consistent to oppose it with force, and do not advocate resort to force in any circumstances. They are even less participant in government than the Quakers. An anarchist of this philosophic type—an evolutionary as distinguished from a revolutionary anarchist—not only refuses to oppose government with force, but he refuses voluntarily to uphold it even with his vote. He not only has conscientious scruples against being a soldier, but against being a part of the civil machinery of government in any way. Yet in matters in which he has no choice he yields peaceably to the government. He will not vote, because voting is not compulsory. But he will pay taxes and do other similar things under compulsion without any show or even thought of physical resistance.

In this attitude of peaceableness he has no superior. He talks against the existence of government even where speech is not free; but he favors the abolition of government by peaceable means. The mode of procedure which he advocates is the abolition of the exercise, one after another, of the various functions of government as now constituted. This, if carried out, will bring about a state of non-government in which every man, according to this doctrine, will do as he sees fit, without injury or hindrance to any other man in the enjoyment of equal freedom. This is the ideal of evolutionary anarchy. Unless Economic Science can refute the claim of the anarchist that such a consummation is possible in the absence of government (and only in the absence of government), the police power of the State will struggle with him in vain.

The theory of the evolutionary anarchists does not imply that under an anarchistic régime every man would isolate himself, and that there would be nothing of the coöperation of modern life. Quite the contrary. Such anarchists believe in coöperation; they would live and work together in communities, but their coöperation as well as their communism would be purely voluntary. There would be no body politic to say to any man "thou shalt" and "thou shalt not." Nor could any man say these things to another with authority.

It is conceded by evolutionary anarchists that under the system which they advocate great cities with their sky-scraping buildings, myriads of luxuries, and gigantic business enterprises would not exist. But neither, they claim, would there be any jails, penitentiaries, poorhouses,

insane asylums or suicides. These things, say the anarchists, are the price which we now pay for the so-called advantages of a false civilization.

Opposed to the anarchists are all persons who advocate the maintenance of government. Such persons we have called governmentalists. All persons, therefore, favor either anarchism or governmentalism.

Anarchism is that condition of society which prevails in the absence of all forms of governmental polity.

Governmentalism is that condition of society which prevails under any form of governmental polity.

A distinction must be made between anarchism and individualism. Individualism does not imply an entire negation of government, but simply a limitation upon its activities in certain directions and especially in the matter of its polity toward property, property values and industrial enterprises. Individualism, while distinctly negative in character, constitutes a form of governmental polity.

Individualism is that form of governmental polity by virtue of which the State leaves property, property values and industrial enterprises to individual ownership, operation and control.

The doctrines of all governmentalists tend either to uphold the established order substantially as it exists, simply increasing its individualism a little here or its socialism a little there; or to substitute for the established order, or for some material part of it, a form of systemic socialism.

Socialism is that form of governmental polity by virtue of which the State takes unto itself property, property

values and industrial enterprises for the common use and benefit of all the people.

In the established order there are several socialistic features, but they are unrelated to one another and do not constitute essential parts of a distinctively socialistic system. The postoffice department of our national government is such a socialistic feature; the public schools maintained in the several states furnish another illustration. Yet there is at present no well-defined economic relation between these socialistic features; either might exist without the other. Such examples of socialism in present conditions are purely sporadic. The governments which maintain them disclaim any intent to establish systemic socialism to any degree in any of their departments.

Sporadic Socialism is that form of socialism in which the various socialistic features of government are unrelated to one another and do not constitute essential parts of a distinctively socialistic system.

Systemic Socialism is that form of socialism in which the various socialistic features of government are related to one another and constitute essential parts of a distinctively socialistic system.

The fact that the established order maintains purely socialistic features without committing itself to socialism as a system in any degree is the result of the individualistic conceptions which pervade the common thought. These conceptions are expressed in such aphorisms as these: "That government is best which governs least." "The less government the better, provided the end be attained."

Such conceptions of individualism are strongly impregnated with truth, but they are as sporadic in their inception and application as are the conceptions of sporadic socialism. Individualism as it is manifested to-day as a governmental polity is simply a negation. It acts merely as a check upon the tendency toward socialism; it has no definite and complete doctrine, working plan or program of its own; nor does it point to any distinct line of demarcation between those things which are within the proper sphere and purview of government and those which are not.

Those persons whose doctrines tend to uphold present conditions we shall call standard economists. Some of their doctrines are socialistic and others are individualistic in their tendencies. Indeed, in one respect the standard economists agree with the anarchists, for like the anarchists they believe that government—the body politic—is an evil. Like the socialists, on the other hand, they believe that government is necessary. According as the standard economists incline toward one or the other of these inconsistent doctrines, they advocate the curtailment or the increase, respectively, of governmental powers and functions, but not to the extent of anarchy upon the one hand nor of systemic socialism upon the other.

CHAPTER II.

OF CONFLICTING THEORIES.

Hate not each other because you differ in opinion—rather love each other; for it is impossible that in such a variety of sentiments there should not be some fixed point on which all men ought to unite.

Zoroaster.

Anarchy is based upon the theory that government is both evil and unnecessary, and that, being an unnecessary evil, it should be abolished. The established order is based upon the conception that while government is an evil, it is a necessary evil, and must be maintained at whatever cost. In his "Politics for Young Americans" Charles Nordhoff expressed the current theory of government as follows: "Governments may be said to be necessary evils, their necessity arising out of the selfishness and stupidity of mankind."

The conception of socialism concerning the nature and necessity of government differs wholly from that of anarchy, and also, upon one point, from that expressed by Mr. Nordhoff. Socialism regards government not only as necessary, but as a necessary good. It regards government as arising not out of the stupidity, but out of the intelligence of mankind; and not out of their selfishness, but rather out of their common desire for more complete coöperation. The conceptions of these different schools with reference to the proper sphere and functions of government will be left for discussion in a future chapter; it

being understood, of course, that all anarchists deny to the State any proper sphere or function with reference either to persons or property. The remainder of our discussion will have to do chiefly with those who are governmentalists of one school or the other; either upholders of the established order—standard economists—or socialists. Each of these schools is divided into two classes or factions. The theories of one faction of the standard economists tend to uphold the established order substantially without change; the members of this faction constitute the conservatives of modern politics. The theories of the other faction tend to change the established order in certain details or along certain lines, but without fundamentally attacking any existing institution. The members of this faction may be distinguished in a general way as the liberals of modern politics.

Upon the question as to what may rightfully be made the subject of private property the standard economists say, in substance, that all things which are now treated as such property are rightfully so treated. No distinction is made by them between things which are the gifts of nature and things which are distinctively the result of the mental and physical exertion of man. They unqualifiedly uphold private property in natural opportunities as well as in labor products. There is nothing outside of our fellow men which we can succeed in appropriating that is not recognized as a fit subject of private property under the present system. If air and sunshine were susceptible of private and exclusive appropriation, they would also be treated as private property under the theory of the stand-

ard economists. Indeed, both air and sunshine are susceptible of private appropriation and control to a slight degree, and just to that degree they are made the subject of private property. Suits at law sometimes arise in our courts which involve nothing except a claim upon one side to uninterrupted use of light and air in a given locality, and upon the other side a claim to the legal right to intercept such use by the improvement of adjoining realty or otherwise.

Upon the question of the individualization or socialization of property standard economists also tend to maintain that whatever is, is substantially right. In some of its features the established order tends strongly towards individualism; in others it upholds and maintains features which are purely socialistic. The postoffice and the public school are excellent examples of socialism. Yet the general trend of the established order may be said to be towards individualism. While supporting both of these tendencies so far as they are exemplified in present conditions, standard Political Economy indicates no clear line of demarcation between them. It points out no criterion by which it may be definitely and positively determined whether a certain kind of property or a certain kind of business should or should not be socialized.

While the theories of standard Political Economy may be divided into those which are conservative and those which are more or less liberal, the persons who accept the standard doctrines can not be so classified with any approach to accuracy. The reason of this is that standard Political Economy furnishes no central truth by which its

adherents may at all times be guided and by which economic doctrines may at all times be tested. The same man is often very conservative upon one question and liberal almost to radicalism upon another, so that the classification of conservative and liberal must be applied to doctrines rather than to individuals.

The advocates of systemic socialism are divided into two classes, and by a clear line of demarcation. One faction of this school is in favor of the socialization of *all* forms of property in so far as they may be used in economic production and distribution. For this reason we shall call them omnisocialists and their doctrines omnisocialism.* Like the standard economists, they make no distinction between natural bounties and the products of labor. But unlike the standard economists, they would, in the first instance, socialize them both. Nothing would be individualized under a régime of omnisocialism until it had passed through the hands and ownership of the State and had reached the hands of its final consumer.

Under this form of socialism there would be a collective ownership of all the means of production and distribution. This would involve the collective ownership of all land used productively and all capital. There would be no production whatever on private account or with private means of any kind. There would be no market—no buying or selling between individuals—and no money. There would be no lending of capital nor payment of interest. The State would be the only employer in productive or distributive enterprises. Payment would be made in social

* *Omnī*, from Latin *omnis*, all.

labor-time checks, and prices would be put upon goods in the public storehouse according to the social labor necessary for their production. As between the State and the citizen labor-time checks would be the only medium of exchange. As between individuals there would be no medium of exchange and no use for any. There would be no chance for the making of a profit by the individual, and to the omnisocialist this is the great desideratum. The private ownership of capital and the making of private profits are two of the things most condemned by socialists of this type. They would eliminate from social life all forms of commercial competition, for it is to competition that they attribute the great evils of modern life, and especially the spoliation of the laborer of all of his product except a bare living according to the accepted standard at any given time. For a bare living, they claim, is all that the laborer receives in present conditions, and he must constantly struggle against the tendencies of the existing system in order to get even his living and to maintain its standard.

The underlying principle of omnisocialism with reference to production is sufficiently stated in its demand for the collective ownership of all means of production and distribution. Dr. Schaffle has called this demand the "quintessence of socialism." Upon the question of the collective ownership of all the means of distribution omnisocialists agree. But as to the principle which should govern distribution by the State of the collective product, omnisocialists are divided into three classes, each of which is distinguished by its formula concerning the rightful

distributive share of the individual worker. The formula concerning the contribution of each worker to the State is the same for all; they are all to contribute according to their ability. The first class, which we may designate as the Christian socialists, use the following formula:

From each according to his ability; to each according to his needs.

The second class, which we may designate as the Bellamy socialists, use this formula:

From each according to his ability; to all equally.

The third class, known as the Marxian socialists, present the following:

From each according to his ability; to each according to his deeds.

According to some writers of the standard school the formula of the Marxian socialists is also the formula which governs distribution in present conditions. It is maintained by them that under our much berated competitive system men share in the product according to the efficacy of their respective efforts. But this the socialist denies. He maintains that, however it may be in theory, in practice the distributive process under the present system is a mere substitution of legal power for the physical force of ancient times in the appropriation by some of the earnings of others, and that both the ancient and modern régimes conform to the plan described in Wordsworth's *Rob Roy's Grave*:

"For why? Because the good old rule
Sufficeth them; the simple plan,
That they should take who have the power,
And they should keep who can."

There is not so much difference between the ideals of the Marxian and the Bellamy socialists as their formulas would indicate. The principles of Marxian socialism, while gauging individual rewards by individual deeds, would tend, so it is said, to induce all men to put forth substantially the same effort, measured in labor-time, and thus to realize substantial equality of reward.

Opposed to the omnisocialists are those socialists who would limit the State to the socialization of but *two* things, viz., natural opportunities—represented by ground values—and public utilities. These persons we shall call bisocialists, and their doctrine bisocialism.* They make a positive distinction between things which are the gifts of nature and things which are the products of man's mental and physical exertion. This distinction is of vital importance to their theory. They contend that what a man creates is rightfully his own as against the world. But that natural opportunities are the bounties of nature to all men and can not rightfully be made the private property of some men to the exclusion of all others, except upon the annual payment into the public treasury of the differential value of such natural opportunities. This plan would allow private possession and exclusive use of natural opportunities in the same manner and by the same legal titles as under the present order; and yet such natural opportunities would be effectively socialized by the socialization of their differential rental values. The socialization of these values would supply the State with revenue, so

**Bi*, from Latin *bis*, twice; used in English without the *s*, two.

that all forms of taxation upon the products of labor—upon energy and thrift—would be abolished, leaving to the producer his entire product so far as it is distinctively the result of his effort, to do with as he may see fit.

The bisocialist is a thorough going socialist as far as he goes; but he limits his socialism to the complete socialization of natural opportunities and public utilities; as to all labor products he is the strictest of individualists. He denies the right of the State to take from him any part of his labor values in taxation; or at least until the differential rental values of all natural opportunities and all public utilities (if privately owned) have been turned into the public treasury and exhausted. He also denies the claim of the omnisocialist that present evils are the result of competition. He contends that these evils result not from competition, but from a denial of free competition by the creation and maintenance of monopolies, franchises and other special privileges.

The bisocialist maintains that although his doctrine is a golden mean between the established order and omnisocialism, yet it is in no sense a compromise. It has a distinct and complete philosophy of its own. In answer to the question, What, if any thing, is rightfully the subject of unqualified private property, the bisocialist replies, The products of labor. In answer to the question, What, if any thing, is rightfully the subject of socialization for the maintenance of the State, he replies, The differential advantages (as reflected in the selling values) of all natural opportunities. Bisocialism would retain the present industrial and commercial systems stripped of all monopolies

and special privileges. It would retain the use of money, but it has a theory of the standard of value and of the proper medium of exchange distinctively its own. It would not abolish the payment of interest, but would deprive the money lender of all chance of extortion. It would give to all men of whatever generation equal external opportunities, but it would not attempt to make men equally strong or equally wise. It would assure to every man a fair field in industry and exchange, and with that every honest man should be content. These are some of the things which are claimed by its advocates in favor of bisocialism.

There is no mistaking the fact that in the realm of economic thought a fierce battle is being waged. There is no concealing the fact that this battle will soon leave the field of thought for the field of action. There is no denying the fact that the established order is on trial at the bar of public opinion, and that this trial will go on until a final judgment has been reached and a rehearing has been denied. By the agitation of the anarchist, government itself is arraigned before this bar. By the challenge of the omnisocialist, the institution of private property and the entire competitive system of industry and exchange are joined in one indictment and must meet the issue as best they may. By the philosophy of the bisocialist, private property in natural opportunities under the present tenure, and private property in public utilities under the present system are put upon trial and must make defense or die.

Among the governmentalists it is not the socialists

alone who bring to the bar of Justice in the high court of public opinion the iniquities of the established order. Men of high intellectual rank who have no tinge of socialism in their economic conceptions may be heard sounding their notes of warning. There is presumably something wrong, and fundamentally wrong, with an economic condition which would lead Professor Thomas H. Huxley to say:

"Even the best of modern civilizations appears to me to exhibit a condition of mankind which neither embodies any worthy ideal nor even possesses the merit of stability. I do not hesitate to express the opinion, that, if there is no hope of a large improvement of the condition of the greater part of the human family; if it is true that the increase of knowledge, the winning of a greater dominion over Nature which is its consequence, and the wealth which follows upon the dominion, are to make no difference in the extent and intensity of Want, with its concomitant physical and moral degradation, among the masses of the people, I should hail the advent of some kindly comet which should sweep the whole affair away."*

This, then, is the situation. We must solve the economic problem. Before we can do this, we must ascertain clearly what it is in its essence. We must submit all economic phenomena to the tests of scientific analysis. Out of the essential data thus obtained we must, by a scientific synthesis, arrive at a solution which will stand every test and meet every man with an honest, full and open answer to his every question. Such a solution must have the certitude of science, and in order to obtain this we must make our discussion conform to the scientific method. This we

* *Nineteenth Century Magazine*. May, 1890.

propose to do by means of an inquiry comprehensive in its scope and brief in its treatment, yet, when seeking fundamental principles, not neglecting the minutest details. In Part I we shall define the terms and deduce the laws that are necessarily involved in all true economic inquiries. In Part II we shall apply these definitions and laws, not only in determining the fundamental faults of the established order, but also in elaborating the principles and the working plan of a complete remedy for all the economic evils which now beset us. If at times the discussions of Part I shall seem technical or even tedious, we bespeak the patience and persistence of the reader with full assurance that the conclusions drawn in Part II will be replete with interest and will well repay a careful perusal of the entire subject. These discussions are of interest not merely to those whose ideals would lead them to change the established order; they are of the utmost practical importance to people of all classes and professions if the established order is to continue.

CHAPTER III.

OF UTILITY AND DISUTILITY.

All that man can do is to reproduce existing materials under another form which may give them an utility they did not before possess, or merely enlarge one they may have before presented. So that, in fact, there is a creation, not of matter, but of utility.

J. B. Say.

In order to decide among the conflicting claims of the governmentalists it is necessary for us first to pass upon the merits and demerits of the competitive system of production. This system is an essential feature of the established order and, as a system, it would survive the changes which would follow the adoption of bisocialism. Upon the other hand, the advent of omnisocialism necessarily involves the destruction, root and branch, of the competitive system.

This attack of omnisocialism upon the competitive system as a whole is the distinctive characteristic of this school of governmentalists. If their contention in this regard is sustained, they must necessarily prevail not only over the standard economists, but over the bisocialists as well; for the preservation of commerce—the preservation of the freedom of the individual to buy and sell—is more jealously guarded and defended by the bisocialist than by the upholder of the established order. On the other hand, if the arraignment of the competitive system, as a system, can not be maintained, omnisocialism is without a *raison*

d'etre. It must prevail absolutely or it must fall completely upon the determination in the minds of the people of this one issue.

Short of the adoption of omnisocialism as a system, the only fundamental contest among governmentalists is between the established order and bisocialism. In advance of the final decision of the people as to omnisocialism must come the verdict of Economic Science concerning the competitive system.

The salient feature of the competitive system is the market. It is here that competition is manifested, and from the market the good or evil of the competitive system must emerge. Within the market (using the word in its widest sense) the most salient features are those of value and cost. In this chapter and in the chapters next following, therefore, we shall investigate with great care and in some detail those economic phenomena which have to do with the processes of the market and with the origin and essential features of value and cost.

The complexities of modern industry and exchange, when reduced to their simplest forms, are found to rest upon those simple laws of nature which govern the efforts of the individual man to satisfy his desires. In order correctly to apprehend those complexities it is necessary for us to recognize certain attributes common to all men, and certain natural laws which tend to govern the individual man in his attempts to satisfy his desires.

A **Desire** is the conscious recognition of a want or a need.

Man is a being possessed of unlimited actual or potential

desires; this all experience proves. Many writers have dwelt upon this fact and have pointed out that while all other animals have the same wants from age to age, man's wants increase with every advance of civilization. The beaver, for instance, builds for himself a rude hut and constructs a dam for its protection. Compared with the huts built by primitive man, those of the beaver show the exercise of sagacity in location and construction greater, it may be, than that of man. But the wants of the beaver are fixed and unchangeable. No beaver ever was born that evolved a desire for a better or different habitation than the house provided by beaver Adam; no beaver ever evolved a desire for better or different food than that commonly desired by his kind. This trait the beaver possesses in common with all other animals except man.

Although certain domestic animals individually acquire tastes when pampered and fed by man, the lower animals, as a class and of their own volition, never progress either in the kind or number of their wants, or in the means of satisfying them. On the other hand the physical desires of man, both in kind and number, increase indefinitely. Although he may for generations inhabit rude huts, the power is ever within him

“To hew the shaft and lay the architrave,
And spread the roof above them”

with more perfect design and ever increasing execution until he dwells in palaces.

As with shelter, so with food. Man's appetite changes insomuch that what he once prized he now abhors, and things which he once looked upon as nauseous or poisonous

he now relishes as delicacies. This is not all. With man the quantity of food desired is limited; but its quality has no assignable limit. When he has satisfied one desire, he has within him a thousand others waiting only for a circumstance to call them forth. His physical wants, actual and potential, are well nigh infinite in number, and the means of satisfying them increase from year to year and age to age. We have only to consider the myriads of articles of commerce and the ever increasing facility with which they are made and transported to realize that even with reference to the physical wants man, and man alone, is voluntarily and persistently a progressive animal.

Superimposed upon the desire to eat, to drink, and to dress, there is in man the desire to know; like the desires of his physical nature, his intellectual desires are unlimited in number, and manifest themselves progressively as the means of satisfying them increase. At first his means of observation are limited; his opportunities to know are meager. Gradually he learns to put facts into such relations that other facts are derived from them and impressed upon his consciousness in addition to those perceived directly by the senses. Finally, with more favorable environment and with increased knowledge, he seeks to solve the problems of matter, of force, of body, of soul, of space, of time, of eternity. It would almost seem that, with the fullest freedom of inquiry and the widest range of opportunity, none of these things is beyond his powers. Yet not less true and important is the fact that the means for satisfying all these desires are finite and are not commensurate with the desires themselves.

Man's ability to satisfy his desires is limited by his own powers of body and mind. Nature has furnished him with powers of action and of endurance, but upon both of these is placed a limit beyond which he can not go. Nature has also furnished him a field upon which to exert his powers, but the possibilities of this field are finite. Although this fact does not justify that distorted and exaggerated doctrine based upon it, known as Malthusianism, yet it is true that it is man's attempt to satisfy his unlimited desires with his limited powers and environment that furnishes a basis for Economic Science. This science, properly understood, will enable man to develop his powers and to put himself into the best possible relations with his physical and social environments, and so reach the highest possible satisfaction of desire.

The expenditure of effort in the satisfaction of desire is not necessarily and always irksome to man. Up to a certain point exertion may give pleasure, while beyond such point it may become more and more irksome. Again, up to a certain point a desire may be satisfied by the spontaneous bounty of nature without the necessity of any exertion worthy of serious consideration; while beyond that point an exertion irksome in its nature may be required. Thus, in summer a man may partially subsist upon wild fruits with but a slight disutility of gathering. To this disutility he is practically indifferent. But if he travels far to secure such fruits, or performs the toil necessary to preserve and store them for future use, the disutility affects him to an appreciable degree. He recognizes the irksomeness of the necessary travel or toil to the extent

that he is put upon choice whether or not he will make the necessary exertion.

It is not necessary for us fully to analyze the different powers of man, nor to distinguish between his physical and mental powers. All powers of man which are irksomely exerted for the satisfaction of desire constitute what we shall call labor-power.

Labor-Power is the physical or mental power of man irksomely exerted for the satisfaction of desire.

This power is exerted in two ways—in the production of immediate and direct satisfactions without any tangible result, as in the case of the services of all public officers, public speakers, opera singers, actors, teachers, preachers, lawyers, body servants, waiters, ushers, and many others; and in the production with tangible result of future and indirect satisfactions, as in the case of the labor of all artisans, mechanics, farmers—in short, of all who exert their powers upon their physical environment for the production of material forms which are afterwards consumed in the satisfaction of desire.

Labor-power exerted in the first way is called Service; in the second, Labor.

When service is rendered for the benefit of the public and at its expense, it is public service; when rendered for the benefit of private persons and at their expense, it is private service. The question of public and private service belongs to our inquiry, but service does not constitute the primary mode of exerting the powers of man for the satisfaction of desire. Primarily, man satisfies

his desires through the exertion of labor-power upon his physical environment.

Although the mechanism of modern industry may seem to be very complex and its methods extremely intricate, yet, at the bottom, the mechanical problems are exceedingly simple. The exertion of labor-power upon external objects can produce changes of two kinds only; it may change the form of the objects; it may change their position; or it may change both. If any such change creates or increases in such material substances a fitness to administer to human wants, or, what is the same thing, to satisfy human desires, then such substances are brought within the field of our inquiry; otherwise, not.

The exertion of labor-power, therefore, may bring about such a change of the form or position of a part of the physical environment as to fit it to satisfy or better to satisfy a human desire. This fitness to satisfy desire is called utility, and the material substance to which this fitness is given by labor-power may be called a labor-form.

Utility is fitness to satisfy desire.

An object in its natural state may possess utility, and this natural utility may be retained even after a new and distinctive utility has been given to the object by labor-power. Thus, the wood of an oak tree has natural utility for the purposes of fuel; and this utility is retained after the wood has been converted into chairs or other manufactured articles. But the utility of the wood as fuel is no longer the distinctive utility. The present distinctive utility is that of the manufactured article. In any case in which the utility added by labor-power is distinguish-

able it is always easy to determine whether the present distinctive utility of an object is natural, or whether it is the result of labor-power. In those cases where the added utility is so slight as not to be readily distinguishable the change has no economic significance.

A **Labor-Form** is any material substance, great or small, so circumstanced that its present distinctive utility is the result of labor-power.

The necessary expenditure of effort beyond a point soon reached is irksome to man, and produces immediate fatigue as well as immediate or ultimate enjoyment. Labor-power has its irksomeness as well as its utility, the former canceling or neutralizing the latter to a certain extent. Within certain limits, which we shall hereafter discover and define, both irksomeness and utility are capable of measurement. Not only that, but they may be measured by the same labor-form used as a unit, and therefore the one may be directly compared with the other. Irksomeness and utility are not correlatives, however, but opposites. In comparing them the one is set against the other. The one is negative, the other positive.

It is true that after a thing has once been attained the fact that it required an effort to secure it sometimes gives added zest to its enjoyment. But this fact does not convert irksomeness into utility; nor is it the rule that the more irksomeness the more utility; nor do these exceptional cases affect the market as a whole. In anticipation of the market men who desire to sell weigh the irksomeness of production against the utility of market price, and unless the comparison is favorable to utility they do not,

in normal conditions, enter the market at all; and men who desire to buy weigh the irksomeness which has attended the attainment of the price against the utility of the thing to be purchased, and act accordingly. Each man seeks to satisfy his desires with the least irksomeness, restraint or hindrance.

If all desires could be satisfied without the expenditure of effort and without any restraint or hindrance, all utility would be unalloyed. But to the extent that irksome effort is required, directly or indirectly, in the satisfaction of desire, and to the extent that enjoyment is restrained or hindered, just to that extent is utility alloyed and thereby canceled. It is immaterial, in this view, whether the irksomeness, restraint or hindrance precedes the enjoyment or is concurrent therewith. Taking into consideration the entire period covered by both acquisition and enjoyment, any irksomeness, restraint, or hindrance which attends the attainment, or diminishes the enjoyment of utility, negatives or alloys such utility and constitutes what we shall call disutility.

Disutility is any irksomeness, restraint, or hindrance, however caused, which attends the attainment or otherwise alloys the enjoyment of utility.

A man produces a labor-form, for instance a coat, and it has for him a certain amount of utility. A certain degree of disutility attends its production, however, so that only a part of its utility gives to him unalloyed satisfaction of desire. After he has completed the coat any tax upon it or restriction upon its transportation, sale, or use

practically increases the disutility of its acquisition and, to that extent, alloys the enjoyment of its utility.

The practical problem of the individual is to obtain a maximum of utility with a minimum of disutility. In doing so he must compare and measure various utilities and disutilities.

Two things may be compared when it can be said of them either that they are equal, or that one is greater than the other. Measurement is a step beyond mere comparison. In order to measure a thing *three* things are necessary; a point from which to measure, a point to which to measure, and a unit of measurement. It is our present purpose to consider those conditions under which various utilities and disutilities may be compared and measured.

First, then, let us establish a common point of view for the purposes of comparison. Up to a certain point, as we have seen, utility may be spontaneous or practically so, and in all cases of productive industry nature spontaneously does a part by furnishing the raw materials. But at the point where irksomeness begins spontaneity ends. For convenience we shall call the point where spontaneity begins the point of spontaneity, and the point where disutility begins the point of disutility.

The **Point of Spontaneity** is the point where the spontaneity of nature begins.

The **Point of Disutility** is the point where the spontaneity of nature ends and the disutility of acquisition begins.

Man does not care either to compare or to measure utilities which are spontaneous. But as soon as irksomeness

emerges his interest is aroused, and his comparisons begin. The point of disutility becomes the point from which he compares all utilities and disutilities. It is the economic starting point.

Economics does not deal with spontaneities. It is only when the procuring of utilities is onerous that man puts any estimate upon them. The first distinction, therefore, which we must make with reference to utilities is to separate those which do not require the exertion of labor-power for their acquisition and enjoyment from those which do require such exertion. This separation is based upon the distinction between spontaneous and onerous utility.

Spontaneous Utility is utility which does not require the exertion of labor-power for its acquisition and enjoyment.

Onerous Utility is utility which requires the exertion of labor-power for its acquisition and enjoyment.

Onerous utility begins at the point of disutility. Disutility begins at the same point. They extend upward together, the disutility neutralizing the utility up to a certain point at which the disutility ceases and the utility alone extends indefinitely upwards. To illustrate: A man exerts a certain amount of labor-power in making a pair of shoes. Disutility begins with the labor. A new utility also begins with the labor, and each successive moment adds to the distinctive utility which culminates in a pair of shoes. When he has cut out only the soles there is distinctive utility accompanied by a perceptible disutility. The disutility ends with the completion of the shoes, while the utility then becomes complete and persists until the shoes are worn out.

The point at which the disutility ends and the positive utility of the shoes begins we shall call the point of positive utility. It marks the point of separation between disutility—the negative of utility—and positive utility. It is the economic zero point.

The **Point of Positive Utility** is the point where the disutility of acquisition ends and positive utility begins.

We must now discover a unit of measurement for both utility and disutility. Every measuring unit must be of the same nature as the thing measured. Utility can be measured only by a standard of utility, and disutility by a standard of disutility. But since every labor-form is the concrete expression of both utility and disutility, it is possible for the same labor-form to furnish a unit, or standard, for the common measurement of both of these intangible qualities. For such a labor-form, therefore, we shall seek.

CHAPTER IV.

OF THE MARGINAL LABOR-FORM.

First recognize what is true; we shall then discern what is false, and properly never till then. *Thomas Carlyle.*

The individual must apportion his expenditures among his various kinds of wants in such a way that to him, as nearly as practicable, each last unsatisfied want will weigh the same in his scale of desires as every other. *Richard T. Ely.*

Let us first consider man in his attempt to satisfy, in a primitive state, the most pressing of all his desires—his desire for food. By putting forth a certain amount of effort he is able to satisfy his present needs, say, by gathering chestnuts. At the beginning of his effort his hunger is great and chestnuts have for him a correspondingly great utility. Compared with this utility the disutility of his exertion is slight; he scarcely notices it. As his hunger becomes appeased the present utility of chestnuts diminishes, and relatively, though not absolutely, the disutility of his exertion increases. Finally he reaches a state of satisfaction in which the present utility of chestnuts is no greater than their disutility and he ceases his efforts. The utility has become to him indifferent. It may be said there is a time when a chestnut has for him just enough utility to cause him to put forth the necessary effort to acquire it; after that the disutility turns the scale. How much utility the first chestnut secured by him possessed we can not tell, nor does it matter. But that the last

chestnut possesses for him but one unit of positive utility we know. For if it possessed two units, he would exert himself to procure another chestnut; and if it possessed less than one unit, he would not exert himself to obtain this one. The positive utility of the last chestnut, therefore, furnishes him with a unit of comparison for utility.

In like manner it may be shown that the last chestnut has but one unit of disutility, and that its disutility is consequently the natural unit of comparison for all disutility to him at the time and place in question. For if it had not one unit of disutility, its utility would be spontaneous, as is the utility of the air and of sunshine in ordinary circumstances, and no exertion at all would be required to secure it; and if it possessed two units of disutility, its disutility would cancel its one unit of positive utility, and its utility would become indifferent.

Intensity of desire is thus seen to be the determining element of onerous utility. Whatever intensifies desire increases the utility of anything which has fitness to satisfy such desire. We shall now examine those factors which influence intensity of desire.

We have considered the chestnuts with reference to present utility only. Man does not, like some of the lower animals, hoard food for future use in obedience to instinct. When he hoards at all it is in obedience to an attribute of the mind of man which is absent in the lower animals—the attribute of forethought. The distinction will appear when we consider that among the lower animals the hoarding instinct is present in all animals of a given species in equal degree. Age after age bees

have stored up honey to the same extent and in the same way. The same condition is substantially true of all hoarding animals except man. With him none of these things is true. Some men appear to be void of any tendency to hoard, while others possess it to an abnormal degree. From that primitive hoarding which was confined to the most pressing wants and the shortest possible anticipation of the future, men have progressed so as to anticipate and provide for manifold wants in years and decades yet to come. Anticipation of the future and provision for it furnish one of the best indexes of the state of civilization attained by a particular man, nation or race.

Let us recur to the man and the chestnuts. It may be that after his present want of food is satisfied, he will anticipate the next meal or the next day, and continue to gather chestnuts. But the utility of the chestnuts to be eaten to-morrow is less than of those to be eaten at once. Man places a lower estimate upon future than upon present satisfaction of desire, and the more remote the time of enjoyment the lower the estimate, other things being equal, until he ceases to esteem at all satisfactions to be enjoyed beyond a certain time, and will make no present effort to anticipate them. There is a "perspective of utility, diminishing with remoteness of time." A man may be so situated that for to-day's dinner of chestnuts he will put forth a certain effort. In anticipation of to-morrow's wants he will put forth some effort, but not so much as for to-day's; and for day after to-morrow's wants he will make no present effort at all.

Let us now assume that this man has advanced in civilization until he has acquired enough forethought and energy to provide chestnuts in advance for several days—say a pint for each day for a week. Probably he can not point to any particular pint and say it has cost him more effort than the others. Ordinarily the effort to secure the several pints will have been substantially the same; therefore, they have equal disutilities, or, what is the same thing, their points of positive utility coincide. He esteems them alike. It is impossible for him to say that any particular pint has the greatest, and another the least utility at any given time, unless he arbitrarily sets aside a particular pint for each particular day. But even if he does this, and by some accident loses the pint which he has set aside for the morrow, he will not on that account go hungry on that day. He will shift the loss to the seventh day whether he has so parceled the chestnuts out or not. In this way he will minimize his loss by shifting it to that pint of chestnuts which has for him the least present utility.

Suppose, now, that the accident which cost him this one pint had endangered all the others so that the man is forced to put forth an effort to save them. When he has saved the first pint his zest for saving the second is less, although he saves it, and so on for the others, until for the last he may make no effort, or not sufficient effort, and it is lost. Consciously or unconsciously the remoteness of the satisfaction was the determining factor which governed his efforts.

From these illustrations we may say that time is a

factor of that intensity of desire which affects positive utility. While we may not be able exactly to measure this factor in all cases, we know that a labor-form which is held for the satisfaction of a present want has a higher utility, other things being equal, than one which is held for future satisfactions; and so far as both present and future satisfactions are concerned, we know that the least labor-form which a man will exert himself at any given time to secure, if he has it not, or to save, if he has it, has for him but one unit of utility.

Let us now change the illustration, and consider a man situated, like Selkirk, upon an island in the springtime and possessed of three bags of corn, the remainder of his last year's crop. The bags contain equal amounts of corn of the same quality, and were secured and preserved by equal expenditures of effort. Their disutilities are the same, and their points of positive utility coincide. In considering their utilities, let us consider only the purposes to which the bags of corn are to be devoted.

We will assume that one bag is held to supply him with food while planting and tending the next crop; another, for seed corn for immediate planting; and the third, for the sustenance of a pet parrot. If, now, an accident causes the loss of one bag of corn, the man will not go hungry himself, nor will he refrain from planting his crop for his own future sustenance. He will shift the loss to the least sensitive point, and deprive the parrot of cereal food, since the parrot's pangs of hunger are of less moment to him than are his own, and its company is less to be regarded than his supply of food during the bleakness of the coming

winter. And if another accident causes him the loss of a second bag of corn, he will consider his present rather than future wants, and plant no corn.

The particular choices which are here attributed to the man in his attempts to shift the loss to the least sensitive point are not material to our argument. In his loneliness he might prefer the company of the parrot to a future supply of corn; or he might prefer a future supply of corn to present cereal food. The salient points are that in such a case the three bags of equal amounts and equal disutilities would have for the man different degrees of utility, so far as the several purposes for which he held them are concerned; and in case of loss of part of the corn he would shift the loss to that portion having for him the least utility in all the circumstances.

To the factor of time of satisfaction we may now add that of choice of satisfactions in our analysis of intensity of desire. We may also say that the laws governing these factors are the same. Analysis in either case carries us back to a labor-form having but one unit of the particular kind of utility involved.

A closer analysis of the illustration of the three bags of corn will show that the conclusions are based upon the hypothesis that the satisfaction of the several desires named is dependent upon the existence of corn. In ordinary circumstances this is not true. Corn is not the only article of food available even on an island. And if we introduce into our illustration not only the fact that the same labor-form—corn—will satisfy different desires, but that other labor-forms will satisfy each of these de-

sires, we shall notice a change in the man's estimate of the various utilities. If he has at hand, or easily obtainable, some other parrot food, he will all the more readily shift his loss to that quarter. If he has no such substitute for parrot food, but has for his own present food, he may continue to feed the parrot and go without corn himself. This change of relative utilities, however, introduces no new law. He still shifts the loss to the least utility. In the analysis of the intensity of desire which affects the positive utility of labor-forms the presence or absence of substitutional forms enters as a third factor.

Lastly, let us note that an increase in the number of bags of corn possessed by the islander at the outset would have changed the whole situation. We assumed that with three bags he could satisfy three different desires, but that the loss of one bag necessarily deprived him of one of these satisfactions. If, however, with the same desires, he had possessed six bags of corn, the result would have been the same as if he had obtained three substitutional labor-forms. The loss of one bag would not have embarrassed him seriously nor greatly increased his estimation of the other five bags. Hence the number of labor-forms in relation to particular desire is a fourth factor affecting intensity of desire.

Therefore, the point of positive utility remaining the same, the positive utility of a labor-form varies according to the intensity of desire, and this in turn varies according to the time of satisfaction, the number of desires involved capable of satisfaction by the same labor-form, the number of substitutional labor-forms, and the number of particular labor-forms in question.

So far we have confined our illustrations to articles of food, and to food of one kind, except in the case of substitutional foods of the same general class. In the cases considered we have found both a unit for the comparison of utilities—the least or marginal utility—and a starting point from which to institute comparisons—the point of disutility. If we consider the same man in connection with the various kinds of food which he may possess at one time, we shall find that the same principles apply. There will be one article of food which he will esteem less than the others, and if necessity requires him to deprive himself of some one article of food, he will prefer to sacrifice the one which, if retained, would afford him the least satisfaction. This article thus becomes the unit by which he compares the utilities of his various articles of food, and its point of disutility becomes the point from which he judges them. And if to food we add articles which furnish him clothing, shelter, amusement, etc., the result will be similar. There will be one article among them which he esteems least of all, and by which and from the point of disutility of which he will compare and judge all the utilities then and there possessed or desired by him.

The least utility which a man at a given time and place will strive to secure, if he has it not, or to save, if he has it, is to him the marginal utility; the effort necessary to secure it is the marginal disutility; and, similarly, that labor-form which he will barely strive to produce, if he has it not, or to save, if he has it, is to him the marginal labor-form.

The **Marginal Labor-Form** of any person is that labor-

form which has for him but one unit of positive utility and but one unit of disutility.

The marginal labor-form of any man is his natural standard of comparison for all utilities and disutilities. But what is the marginal labor-form to one man is not likely to be to another, so much do men differ in their desires and estimates. This fact furnishes a basis for barter and exchange.

We have already alluded to the fact that some utilities require no irksome effort on the part of man for their production and enjoyment, as air and sunshine in ordinary circumstances. They are usually free to all alike and abound everywhere. These we have called spontaneous utilities. Inasmuch as they can be appropriated by man without labor they have no bearing on economic questions. Having no unit of utility or disutility with which to institute a comparison, they are never compared with industrial utilities or with each other. Man places no estimate upon them. In short, in order to have any economic significance, an object must have disutility as well as utility—and the latter must exceed the former. If invention could reduce the point of positive utility in all cases to the point of disutility, all economic phenomena would cease. As it is, nearly all utility is onerous rather than spontaneous. Having divided all utility with reference to the means of its attainment into spontaneous and onerous utility, and having excluded the former from our consideration, let us seek to analyze onerous utility.

In their entireties and in some circumstances onerous utilities are not only immeasurable but incomparable. If

a man's life is seemingly dependent upon the retention by him of a single morsel of food, his only store, its utility to him is absolute—it is a matter of life or death. For the time being he looks upon this fitness to satisfy desire as all in all, without relation to the comparative fitness of any or all other utilities. In such circumstances the utility involved has no reference to the market. But in ordinary circumstances the utility of a morsel of food is but relative, and may freely be compared with other utilities. All relative utilities may be considered with reference to the market.

Absolute Utility is fitness to satisfy desire without reference to the comparative fitness of any or all other utilities.

Relative Utility is fitness to satisfy desire with reference to the comparative fitness of any or all other utilities.

Economics does not treat of absolute utilities, so that these also may be excluded from our consideration. Our next step is to analyze relative utility.

With reference to particular labor-forms all men are either producers or consumers. To each of these classes the primary importance of a labor-form does not lie in the fact that it has been made into a particular shape, but in the fact that it possesses utility. The form which it assumes under the hand of man in the process of its making is important only because it contributes to its usefulness. A labor-form has no economic significance except as a concrete expression of utility.

The making of a labor-form in the sense of giving to it its distinctive form and finish is not the only thing which contributes to its utility. We have already seen that

labor-power may be exerted upon external objects so as to produce changes not only of form, but of position. Each of these changes may contribute to utility, and the one as much as the other. A labor-form may be completed as to its form in a factory upon the Atlantic coast and yet have little utility until it has been transported to the Pacific coast to be employed in some enterprise peculiar to that region. The man who buys it of the manufacturer and transports it to the Western coast adds greatly to its utility by so doing. And if upon its arrival in San Francisco a final purchaser is not immediately forthcoming, the dealer in such wares who buys it of the shipper and places it for sale in some convenient and conspicuous place also adds to its utility. He brings it so much nearer to the person who wants it for final consumption, and has it ready for use as soon as it is needed by such consumer.

All the men who have added in any way to the utility of a labor-form, whether by giving it its form, by changing its location, or by holding it in readiness for the purchaser so as to save the time of the latter, are producers. They have all created or increased its utility and this, and not mere manufacture, is the gist of production.

Production is the artificial creation or increase of utility.

After relative utility has been created it may be used by the producer as an aid to still further production, or it may be used by a final consumer without reference to any further processes of production. The processes of production are those of industry—the making and transporting of labor-forms—and of exchange.

Utility which avails only the consumer we shall call

ultimate utility; while that which avails only the producer we shall call intermediate utility.

Ultimate Utility is that form of relative utility which avails a consumer subsequent to all the processes of industry and exchange.

Intermediate Utility is that form of relative utility which avails a producer in some of the processes of industry or exchange.

A labor-form may be used in such a manner that it avails a consumer subsequent to all the processes of industry and exchange, or in such a manner that it avails a producer in some of these processes. In the former case it is a satisform; in the latter, a capital-form.

A **Satisforn** is a labor-form so circumstanced that it avails a consumer subsequent to all the processes of industry and exchange.

A **Capital-Form** is a labor-form so circumstanced that it avails a producer in some of the processes of industry or exchange.

A satisform is distinctively possessed of ultimate utility; a capital-form, of intermediate utility.

It is the marginal satisform of every man that furnishes him with a marginal unit of utility. If a man is possessed of but one kind of food, say corn, and no other satisforms whatever, then that part of the corn which is least esteemed by him furnishes the marginal unit. If he now acquires several different kinds of food, some having less and some greater utility than corn, the marginal unit for food shifts to that portion of food least esteemed. And if he shall further acquire various satisforms besides food, of

different relative utility, the marginal unit for all his sat-isforms will shift to that satisform least esteemed of all.

We have so far confined our discussion to those utilities and disutilities which are of interest to man as an isolated individual. We have not yet reached the field of Economics proper. But man in society retains his individual characteristics. He does not cease to be a man; and, as we shall see, all those facts and circumstances which affect a Selkirk in his attempt to compare utilities or disutilities will affect him when he attempts to measure them as an exchanger in the markets of civilized society. Other facts will intervene, but in all circumstances he will find use for that most fundamental of all economic ideas—the idea of *the margin*.

CHAPTER V.

OF INDUSTRY AND EXCHANGE.

That which does no harm to the state can do no harm to the citizen. That can not be for the good of a single bee which is not for the good of the whole hive.

Marcus Aurelius.

Both parties to an exchange will be benefited if the utility which each gains is larger to him than the utility which he parts with.

John M. Gregory.

In order to pass to the next step of our inquiry, let us assume that our Selkirk builds a rude boat and starts out upon a voyage of discovery. On a neighboring island he finds a small company of men of his own race with their wives and families who, like himself, have been shipwrecked. Out of their wreck the men have saved various commodities and implements sufficient for their simplest needs. At first Selkirk takes but little notice of this fact. No sooner has he seen these men than he determines to abandon his island and all his fixed improvements and cast his lot with them. The mere matter of their companionship is more to him than all his physical possessions. On the other hand, they are glad to welcome him as one of their number. So he conveys to their island his movable belongings with all convenient speed. He thus willingly gives up the result of many days' labor spent in building an abode upon his own island and cheerfully exerts himself to build another home.

In doing this Selkirk weighs the advantages of companionship against the labor-forms which he must lose, and chooses the former. He may, indeed, be said to exchange the one for the other, but it must be observed that, in fact, it is a mere change on his part, and not an exchange in any commercial sense. No one acquires anything by what he loses, or loses anything by what he acquires. They all gain from a more extended companionship, but this gain has nothing to do with his loss of improvements. The gain would have been just as great to them all, and greater to him, if he had had nothing to lose by deserting his own island. There are many instances of this kind in our daily lives. We often relinquish advantages which do not thereby accrue to others, and we as frequently acquire advantages without any corresponding disadvantage to any one else. These changes have no economic significance. The loss or gain is confined to the individual and can not be measured.

The men upon the island coöperate, as men tend to do everywhere, for the satisfaction of their desires. At first their coöperation is likely to take the form of joint exertion of physical strength. Thus, in building huts, they can jointly place in position logs which, working singly, they could not even move. This simple illustration may stand for others of the same class, the distinctive characteristic being the union of labor-power in the performance of heavy tasks. On the other hand, in the joint performance of many tasks labor-power is not united, but purposely divided. One man rows the boat while another casts the line; one carries the cross-bow or the gun; another, the

game. Afterwards they adopt the simpler forms of what in a more complex society is known as division of labor. Thus, in the production of labor-forms one man habitually makes but a part, and often a small part, of the finished product, and so is enabled to acquire skill and dexterity otherwise impossible. Each man, in fact, may become an expert in his line, and the joint product of ten men is vastly more than ten times as great as the aggregate product of the same men working independently in the production of labor-forms of the same kind; for aside from the increase in skill there is a saving of the time otherwise required by each man in passing from one kind of work to another.

Then again, it is not long before the inventive powers of some of these men begin to develop. A tool is made which enables one man to do the work formerly done by two. The tool suggests the simple machine, which not only increases the amount which one man may produce in a given time, but also reduces the labor-power to be exerted within that time. Finally, in a higher civilization, the complex and intricate labor-saving machinery of our present factory system is developed, and the products of man's handiwork are prodigiously increased until, in present conditions, the world at times seems overstocked, and men by hundreds, thousands, aye, by millions, are somehow compelled to stop working and to remain idle for days and months, and even years, because of a seeming and so-called over-production.

We have seen that nature has provided certain utilities so generously that no voluntary action on the part of man is necessary for their production and enjoyment; as air

and sunshine in ordinary circumstances. Such utilities are spontaneous. So far as they alone are concerned man exists without the exertion of labor-power. We have also seen that the exertion of labor-power is irksome to man, and that he tends to satisfy his desires with as little irksomeness as possible. His ideal is to reduce all labor-forms to spontaneities. In practice this is impossible, but he seeks to approach spontaneity as closely as he can; he strives to lower the point of positive utility until it will coincide with the point of spontaneity.

Before passing to the next step in the development of these islanders, let us note that so far we have considered their coöperation only as it involves the exertion of labor-power in the production of labor-forms. Quantity and variety of products have been the results sought and obtained. The union of effort has resulted in substantial buildings; the division of labor, in the production of more hats, more coats, more shoes, more food, and more kinds of food. But when a man has one or two coats he is comparatively content on that score. An additional quantity or even variety of coats is of no considerable moment to him. But he may have no shoes. Another may have both coat and shoes, but no hat; a third may have clothing to spare, but no food. Taken all in all, there is in the community plenty of clothing, plenty of food, and plenty of shelter, these constituting the simplest satisforms; but no man among them is in possession of a supply of all three. In such circumstances these men, acting naturally, will exchange labor-forms. The man with an extra coat and no

shoes will seek another who has an extra pair of shoes, but no coat. Still another man will exchange a hat for food.

Let us now consider the islander who has an extra coat, but no shoes. He has secured the coat by the exertion of a certain amount of labor-power. The coat, therefore, to him represents a certain disutility. He has reduced the disutility by applying his labor-power to an industry with which he is familiar—the making of coats—rather than to one of which he knows little or nothing—the making of shoes. But while the disutility of his product is comparatively low, so, also, is its positive utility to him at the present time. The utility of a pair of shoes to him is much greater than that of the coat, but if he had to make the shoes himself, the disutility would be so great as to offset much of the utility, thus leaving the positive utility of the shoes comparatively small. His plan is to produce a coat with small disutility, and then exchange it for a pair of shoes of greater utility, and thus enjoy the benefit of a maximum of utility as the result of a minimum expenditure of labor-power. The natural law by which men everywhere attempt to secure a maximum of utility with a minimum of disutility is the economic “law of gravity.”

With the producer of the pair of shoes the conditions are just the reverse, but the ultimate object is the same. His pair of shoes represents to him a comparatively small disutility, and he hopes to exchange his product for a coat having to him vastly greater utility than the shoes. He, also, obeys the “law of gravity” of the market.

When they have exchanged labor-forms, the one has secured a pair of shoes with the disutility of making a coat;

and the other, a coat with the disutility of making a pair of shoes. Both are gainers by the transaction; not necessarily equal gainers, but that gives them no concern. Both are better off than if the exchange had not been made; neither has suffered a whit because of it. Each has satisfied his desire with the least labor-power, and each is in possession of his product or what, to him, is a satisfactory equivalent.

Our illustration has assumed an “even trade,” but not of necessity. In the discussion of the estimates put upon different labor-forms by our Selkirk alone upon his island, we found that such estimates were influenced by at least four possible circumstances, or conditions, which affect intensity of desire. All these and other considerations may enter into the calculations of each of the two islanders in the exchange just described. The intensity of the desire of one of them for a coat will vary greatly according to the season of the year, and from other causes. If he has no coat at all, his desire will be greater than if he has an old coat which he intends to wear for a time before entering into the enjoyment of a new one. If he desires the coat merely for bodily comfort, he will esteem it less than if it will also administer considerably to a desire for display—a desire to be in style. If his desire is simply for a work coat, its place may be supplied by a simpler and smaller garment, as a jacket or a roundabout. And the number of coats possessed either by himself or by the other islander in question, if known to the former, will affect his estimate of the coat which he desires to secure. Again, a like number of considerations may affect his estimate of the pair

of shoes which he proposes to exchange for the coat; and to these must be added all the considerations which go to the question not of utility, but of disutility, which will be greater or less according to his opportunities for the use of tools and all other labor-saving devices in their manufacture.

On the other hand, the maker of the coat is beset with a like number of considerations upon his side of the transaction. From this point of view the matter of the exchange which seemed at first simple appears now exceedingly complex, especially when we include in the category of determining factors not only the tendency of each to make the best of the bargain so as to secure the greatest results from his labor, but also the varying degrees of shrewdness with which they severally carry on the "higgling of the market," which finally fixes the terms upon which the exchange is made.

The fraction $\frac{1}{2}$ when encountered by a child in the first lesson in common fractions is a very simple thing, and is easily understood. The complex fraction with half a dozen other complex fractions for its numerator and as many more complex fractions for its denominator which he encounters later on among the miscellaneous problems is to all appearances quite a different matter; but when the simple rules of multiplication and division are applied to it, its complexity disappears, and the result, when it has been reduced to its simple form, is found, perchance, to be $\frac{1}{2}$. In much the same way all of the complexity of the problem of exchange vanishes when the parties thereto auto-

matically and almost unconsciously reduce their various estimates to their simplest forms.

Each man has in his consciousness, if not actually in his possession, some labor-form which he will barely exert himself to save, if he has it, or to possess, if he has it not, and which has, consequently, for him but one unit of positive utility, and which represents to him but one unit of disutility. To this marginal labor-form he refers and with it compares, first, the labor-form which he has, and then the one he has not. In this way he is enabled accurately to compare his estimate of the one with his estimate of the other. This done, if he prefers what he has not to what he has, he determines at once to exchange, provided the disutility of the labor-form secured in this manner is not greater than the disutility of producing a similar labor-form himself. Having decided to exchange, and having not only the desire but the wherewithal to secure what he desires, he is economically capable; and if no third party intervenes, the respective abilities of himself and his opponent to higgle will determine the point of exchange.

A Capable Buyer in a given market is one who is both willing and able to buy at the market price rather than not buy at all.

After the maker of the coat has made his own estimates of the two labor-forms he will consider the various circumstances likely to influence the maker of the shoes in the formation of his estimates, and so anticipate, as far as he can, the action of the latter. The maker of the shoes will do likewise, and the comparative skill of the two as traders will decide the terms upon which the exchange is

made. But after all, the transaction is one of simple barter between the two, wholly uninfluenced by circumstances outside themselves. So far the results obtained do not differ in effect from those derived from physical coöperation in the union or division of labor. In each of these, however, the active participation of each person involved is essential to the final result. The mere presence of bystanders, however capable they may be, avails nothing in industry. Their labor-power must be brought into use in order to be effective.

It is otherwise in the matter of exchange. A capable bystander upon either side of the market is not without influence. Let us assume that *two* islanders have extra coats, both being in want of shoes. The three men now meet for barter, and all are capable traders. All of the considerations which influenced the traders when there were but two will influence the three. They will severally make their estimates in substantially the same way. But when expression is given to these estimates the fact of the presence of the second coat owner will cause the owner of the shoes to set his asking price on the shoes high and to offer a relatively low price for a coat. On the other hand, the first coat owner will be influenced by the presence of the second, and will consent to take less for his coat, or, what is the same thing, to give more for the shoes than he otherwise would, and so make the exchange. Thus the mere presence of the second coat owner as a possible and capable trader for the shoes, although he may not even have made a bid for them openly, may cause the first coat owner

to give not only a coat, but a vest, also, for the pair of shoes.

In this transaction we note that the presence of the second coat owner has not affected the other parties equally or in like manner. It has given to the shoes a greater, and to the coat a less utility to those who offer them, respectively, in the market. From another point of view it caused the owner of the shoes to acquire what he desired at a less, and the coat owner at a greater disutility than would otherwise have been the case. Both have satisfied their desires with the least effort in the circumstances, however, and each has his labor-form, or what to him is its equivalent, for otherwise there would have been no exchange.

Men by associated effort may strive to put themselves into the best relations with their physical environment. They may unite labor-power to labor-power when greater strength is required. They may divide their tasks when greater skill or a saving of time is sought. They may make tools and machinery to supplement both strength and skill by calling to the assistance of man the powers of nature and the mathematical precision of the mechanic arts. These efforts may extend from the simplest coöperation, as in the building of a hut in the wilderness, to the exquisite finishing of the most delicate products of modern industry, and from the transportation of logs in the "lumber woods" to the transmission of intelligence by telegraph or telephone. Yet in all these things we have but the application of labor-power for the purpose of overcoming the disutilities of nature. They are but manifestations of man's

desire to approximate the spontaneity of nature in the physical world by annihilating the disutilities of matter, space and time. They result simply in an increase of positive physical utility.

We have seen, however, that men in association attempt to satisfy their desires not only by creating labor-forms, but by exchanging them; by taking advantage not only of physical utility, but of the utility of social environment. When a labor-form has entered the market for exchange its importance to its possessor depends upon its commercial rather than upon its industrial utility. These, however, are but forms of intermediate utility.

Industrial Utility is that form of intermediate utility which avails its possessor in the processes of industry.

Commercial Utility is that form of intermediate utility which avails its possessor, as seller, in the processes of exchange.

Commercial utility, as we have so far discussed it, has two of the elements of direct measurement. It lies between the point of disutility, where all economic utility begins, and the point of exchange. We have not yet developed a common unit of measurement, however, nor are we ready to define the point of exchange.

The presence in the market of other capable buyers compels the successful bidder to give more for an article, and so gives rise not only to a commercial utility, but to a commercial disutility. In the case last considered we found that with but two exchangers in the market one of them secured a pair of shoes in return for a coat. But the coming of a second capable shoe buyer into the mar-

ket caused the first to give in exchange a coat and vest for a pair of shoes. In the market and at the point of exchange the disutility of the pair of shoes was as to him increased by the presence of another capable shoe buyer, or, in other words, a competitor. This disutility arises from the fact that only one person can wholly possess and enjoy a given labor-form at any given time. This is a physical fact, but assumes a social aspect when manifested in the market. Experience teaches us that in every general market this disutility asserts itself and is recognized, under the name of "competition," as the determining factor in every exchange. The disutility which arises from the acquisition of utility by means of exchange we shall call commercial disutility. This will distinguish it from that disutility which arises from the acquisition of utility by means of the processes of industry.

All disutility is onerous, so that we do not have a division of disutility to correspond to the distinction between spontaneous and onerous utility. But like utilities, disutilities may be either absolute or relative. The disutility of gaining a certain end may be the disutility of giving life itself, but ordinarily disutilities are susceptible of comparison. Industrial and commercial disutilities are but forms of relative disutility.

Absolute Disutility is irksomeness of acquisition without relation to the irksomeness of any or all other disutilities.

Relative Disutility is irksomeness of acquisition in relation to the irksomeness of any or all other disutilities.

Economics takes no note of absolute disutilities. We therefore exclude them from further consideration.

Industrial Disutility is that form of relative disutility which arises from the acquisition of utility by means of the processes of industry.

Commercial Disutility is that form of relative disutility which arises from the acquisition of utility by means of exchange.

In the early part of our discussion reference was made to the fact that labor-forms are primarily of two kinds according as they avail a consumer subsequent to all the processes of industry and exchange or a producer in some of these processes. For the sake of clearness we shall here repeat four definitions and add two which grow out of these.

Labor-Power is the physical or mental power of manirkosmely exerted for the satisfaction of desire.

A **Labor-Form** is any material object, great or small, so circumstanced that its present distinctive utility is the result of labor-power.

A **Satisform** is a labor-form so circumstanced that it avails a consumer subsequent to all the processes of industry and exchange.

A **Capital-Form** is a labor-form so circumstanced that it avails a producer in some of the processes of industry or exchange.

An **Aid-Form** is a capital-form so circumstanced that its distinctive utility is industrial.

A **Trade-Form** is a capital-form so circumstanced that its distinctive utility is commercial.

We have also seen that the distinctive utility of a satisforn is ultimate; of a capital-form, intermediate. Ulti-

mate and intermediate utility on the one hand, and industrial and commercial utility on the other, are divisions and subdivisions, respectively, of relative utility. They are not independent utilities, but are merely forms of relative utility. To a large extent they are interconvertible. Ultimate utilities may be thrown back upon the market and so become trade-forms (intermediate utilities); while trade-forms are constantly passing into the domain of satisforms (ultimate utilities). All industrial utilities may be changed for the time being from aid-forms to trade-forms; while trade-forms are constantly leaving the field of exchange to become the instruments of industry. As we shall see, commercial utilities and disutilities are forms which all relative utilities and disutilities must assume for the purposes of measurement.

CHAPTER VI.

OF THE MARGINAL PAIR.

The price coincides very nearly with the estimate of the
“last buyer.”

E. von Boehm-Bawerk.

Let us now assume that *three* coat owners enter the market where, as before, there is but one person with an extra pair of shoes. All of the conditions which we have noted will apply, and there will be from the start one of the three coat owners who, because of the greater intensity of his desire, will tend to lead in the bidding for the shoes, although he will try to get them with as little disutility as possible. If the three have equal abilities for exchange, the one having the greatest need or desire for the shoes will be the most capable of the capable buyers in that market, and the one with which the owner, or seller, of the shoes will most readily strike a bargain. Whenever there is more than one capable buyer for an article in a limited market, one of them will be the most capable, and will make the actual exchange, although every capable buyer will to some extent influence the fixing of the point of exchange. But whenever there is a one-sided market, with all or a greater part of the competition among the buyers, the most capable buyer—the capable buyer with the greatest desire—will tend to fix the point of exchange. This results in a correspond-

ingly great disutility to the buyers in such a market. The disutility of competition in such case is thrown upon the buyers, while the utility is enjoyed by the seller or sellers. It is natural enough, perhaps, in such conditions, that the sellers should endeavor to retain their advantage, even to the extent of persuading the buyers that such is the natural and necessary condition of every market.

The entrance of other capable buyers of shoes into this market—neither the number of sellers nor the stock of shoes being increased—could only result in greater divergence of desires between the most capable and the least capable buyer, until the disutility of obtaining a pair of shoes by exchange would approximate the disutility of making them at first hand. Thus the utility of the market would be reduced to a minimum, if not entirely destroyed. For even in a one-sided market the commercial disutility of a labor-form can not, as a rule, be made to exceed its industrial disutility to the most capable buyers; for otherwise there is in even the most capable buyers no motive for exchange.

Let us now consider a one-sided market in which there are more sellers of shoes than buyers. If there are two sellers and but one buyer, one of the sellers will make the exchange, but he will do so at a lower point than if he were the only seller. The presence of the second seller is a disadvantage to him and a corresponding advantage to the buyer. If another seller enters the market, the disadvantage to the most capable seller is increased, as is also the advantage to the buyer.

A **Capable Seller** in a given market is one who is both

able and willing to sell at the market price rather than not sell at all.

It will be noted that in such a one-sided market the most capable seller is the one who has the least desire to retain his extra pair of shoes as compared with the desire to acquire a coat. That is, he is the one most anxious to sell. It follows that if the number of sellers be increased, the number of buyers remaining the same, the point of exchange will be forced down until there remains but one unit of utility to the most capable seller. In normal conditions it can not be forced lower, for then even the most capable seller would have no motive for exchange. Therefore, in one-sided markets the point of exchange of a given labor-form will range from its disutility to the most capable buyer (highest bidder) down to its utility to the most capable (or lowest) seller, according as the advantage of the market is with the sellers or the buyers, respectively.

Let us now consider a market in which there are two sellers and two buyers of coats, each seller having but one extra coat. The most capable buyer and the most capable seller—called the most capable pair in the market—will first exchange, their point of agreement being influenced by the presence in the market of the other men. These will then be left to agree upon an exchange without reference to the first pair who, having satisfied their desires through exchange, are now out of the market.

In our discussion of utility and disutility we were led to consider the point of spontaneity, the point of disutility, the point of positive utility, and the marginal units of

utility and disutility. In the foregoing discussion of exchanges in one-sided markets we have considered, also, the point of exchange, which lies at the upper limit of commercial utility. We have now to consider the point of exchange as it is manifested in a general market.

We have been considering a small market in which men have met for the purposes of barter. In developing a larger market, it will not be necessary for us at this time to trace the various steps in the growth of the market until men have ceased to barter and have agreed upon some labor-form, as gold or silver, for use as a medium of exchange. For convenience we will for the present assume that men have adopted gold and silver as current trade metals, and that these metals have been coined into units with various fractional and multiple denominations as in the case of current coin.

After money comes into current use and a general market is established, each man produces labor-forms to be turned by sale into money, with which he purchases other labor-forms as his needs may require. This we know; but out of these seemingly simple transactions arise certain economic definitions and laws of the highest importance.

An **Ordinary Trade-Form** is a trade-form which is bought and sold in the ordinary process of the market.

A **Current Trade-Form** is a trade-form which passes current in the market as a medium of exchange.

Current trade-forms, current debit-forms, and current credit-forms constitute the money-forms of modern commerce. The additional forms will be defined later.

We have seen that in any market containing several capable buyers there is one who is most anxious to purchase. We have also seen that in a one-sided market with few sellers and many buyers the most anxious buyer is the one who will first exchange. The price may then fall to the bid of the next buyer, and so on, it being possible in such a market to have a different price for each purchase. The same shifting of price may result from a one-sided market with many sellers and but few buyers, except that the price will tend to increase with each purchase and sale, as the most anxious or cheapest sellers will first dispose of their wares. But, as is well known, in a general market in which there are many sellers and many buyers, and in which the supply of ordinary trade-forms and the demand for them tend toward an equilibrium, the price does not differ with each sale, nor does it tend to do so. On the contrary, the tendency is toward a fixed market price at which all must sell and all must buy in that market. This is one of the most interesting as well as the most important facts which we have to consider. It constitutes one of the most talked about and least understood phases of economic phenomena.

One of the first things which a buyer learns is the advantage of concealing his own desires and necessities, and of assuming an indifference which is felt only by those buyers whose desires and necessities are least of all. The seller also learns to conceal his necessities, if any such exist, but he must constantly evince his *desire* to sell by advertising, window displays, and the thousand and one expedients known to the modern merchant. Theulti-

mate effect of the tendency of buyers to conceal their desires is to *abolish*, in a general market, *all open competition among buyers*. While the ultimate effect of the tendency among sellers to attract buyers at all hazards is to *intensify*, in a general market, *the open competition among sellers*.

To illustrate: There is little, if any, conscious and open competition among the buyers of staple groceries and dry goods in an ordinary country town; but there is considerable conscious and open competition among even country merchants. In large cities there is absolutely no open competition among the buyers of goods at a mammoth department store. It matters not that one purchaser may be practically destitute of clothing and another supplied beyond his actual needs; the price is the same to both. A starving man enters a restaurant and sits at the same table with an epicure who is so surfeited that he can scarcely select from a most elaborate bill of fare a morsel that is even palatable to him; yet the starving man pays no more than the epicure. The price was fixed before they came, and neither the abnormal appetite of the one nor the lack of appetite of the other affects it in the least. They do not bid against each other. What *does* fix the price? Supply and demand? As well say, "Chops and tomato sauce" for all that the hackneyed phrase "supply and demand" means as currently used.

The difficulty of answering this question as to the determining factor or factors of market price is increased by the fact that there is nowhere a market of any considerable consequence in which the natural laws of exchange have

free play. Everywhere that we may seek to examine the market we shall find that it is affected more or less by juridical institutions, laws and customs which interfere with normal conditions. This makes it necessary for us to distinguish between normal and abnormal economic conditions, and between the normal and the abnormal market.

Juridical Institutions, Laws and Customs are institutions, laws and customs which are recognized and enforced by the judicial powers of the State.

A **Normal Market** is a market unaffected by juridical institutions, laws or customs which interfere with normal conditions.

An **Abnormal Market** is a market affected by juridical institutions, laws or customs which interfere with normal conditions.

In the following discussion of market and price and of value and cost the examination of facts and principles is confined to normal conditions except in instances in which the contrary is specially noted. This noting is usually done by the use of the term "in present conditions." By the use of this term we mean conditions of the market abnormally affected by present juridical institutions, laws and customs.

In the science of mechanics there is discussed a process called the composition of forces by means of which a single physical force is found which is the concentrated effect of two or more separate forces acting in given directions and meeting at a common center. This single force when found, or composed, is measurable and is

called the resultant. In connection with every resultant there is conceived to be a force acting in the opposite direction which just equals it and which is called an equilibrant. If Economic Science, so-called, be truly a science, it must disclose a process by means of which a single resultant may be found which is the concentrated effect of all the economic forces which center in the market. It must do this just as completely and with as much certainty as mechanical science is enabled to compose physical forces into measurable resultants and their corresponding equilibrants. That Economic Science is a true science, and that the composition of those economic forces which center in the market finds a measurable resultant in value and a corresponding equilibrant in cost we now proceed to prove.

We have seen that in any market the competition among sellers persists. In fact, the larger the market the greater the competition becomes. In the country town the merchants compete, but are comparatively at ease; while in the large city, in present conditions, men lie awake at night evolving plans for enlarging their trade at the expense of their competitors. Now, in any general market there is one seller who, in respect to a given trade-form, is most anxious to sell. If he has but a small supply of that trade-form compared with the usual demand in that market, he may lower his price and dispose of his supply without affecting the general market price. His action in so doing will be known to but few. In such case he is not, economically speaking, an integral part of the general market, but rather an isolated and incidental seller. But if

his supply of such trade-form is sufficient to affect the entire market, he becomes a marginal seller upon that market, and competition forces all other sellers to offer similar trade-forms at his price. It makes no difference how large the market, if the supply of a given seller be large enough, he may set a price which all others must meet. The marginal seller, then, is the determiner of price upon his side of the market.

The **Marginal Seller** of a given trade-form is the most anxious seller whose supply of such trade-form is sufficient to affect the entire market.

In a large market there are usually several sellers who are equally capable and equally anxious to sell, and who consequently offer a given trade-form at the same price. If their combined supplies are sufficient to affect the entire market, the price fixed by them becomes the market price. In such cases they constitute the "marginal group" of sellers, and practically act as one man.

We have seen that in any general market the open competition among buyers tends to diminish and finally to disappear. We must not conclude from this, however, that the buyers of a given trade-form have little or nothing to do with fixing its price. As a class they appear to buy at a price already fixed; and as a class, the sellers appear to fix the price. But the fact is contrary to the appearance. In the absence of monopoly the price is not fixed arbitrarily by the seller. It is largely determined by the desires of those capable but indifferent buyers whose participation is necessary to exhaust the supply in the given market.

Suppose that in a given market, at the beginning of the fruit season, 100 baskets of peaches are received and offered for sale. This fruit is perishable and must all be disposed of quickly in order to avoid deterioration and loss. Let us assume that the supply is divided among three or four dealers, and that it is necessary, in order to avoid loss, to dispose of the entire stock upon the day of its arrival. There are in that market five families able and willing, if necessary, to pay \$5 a basket for peaches; ten other families who are capable buyers at not exceeding \$3; fifteen other families, at not exceeding \$2; seventy other families, at not exceeding \$1 per basket, and all of the sellers are aware that, from the state of the demand, their entire stock can not be sold unless the market price becomes as low as \$1 per basket. In the ordinary course of business in such circumstances each dealer marks his peaches at \$1 per basket, and all buyers take advantage of that price.

On the next day 150 baskets of peaches are received in that market, and the capable demand of the 100 families above mentioned remains the same, but in addition to these there are fifty families who will buy peaches at not exceeding 75 cents per basket. The price of peaches for that day is 75 cents. If, on the next day, 250 baskets are received, and one hundred additional families are capable buyers at not exceeding 50 cents per basket, that sum is the price necessary to be fixed in order to exhaust the entire supply of peaches. If the price at which the entire supply can be disposed of is not known to the dealers in advance, the market price may start higher and fall dur-

ing the day; but at any given time the price tends toward uniformity among all the dealers.

For the sake of brevity and clearness of illustration we have made use of a perishable labor-form in a market in which the price may fluctuate from day to day, the material points being that at any given time there is, in ordinary circumstances, but one price in that market, and that that point is fixed, not arbitrarily by the sellers themselves, but by the capable demand of the lowest buyers whose participation is necessary to exhaust the supply in the market. If now we change the illustration to some article not immediately perishable, we shall find that the market price is relatively constant from day to day, but that such changes of price as may occur result from the demand of the most indifferent, but necessary, buyers.

This fact is recognized by all merchants, and especially by large dealers in a market where competition among sellers is close. They not only strive to secure a large share of the trade of those whose demand for a given trade-form is so great that they will buy it somewhere without urging—in which case the question is simply which merchant gets the trade—but they also constantly seek to attract buyers who are practically indifferent. Full page advertisements in metropolitan dailies, elaborate window displays, and tempting prices are resorted to not only to attract the man who wants the goods in question, but also to create desire in those who otherwise would not buy at all. It is not the men and women of wealth who drive to the store in fashionable turnouts and are met at the door with smiles of welcome, followed with fawning, and dismissed

with obsequiousness and flattery, who fix the price of staple articles; it is the people of small means who are just on the verge of expending hard earned money in some other way. The merchant must dispose of his entire stock on hand before it becomes shopworn, and for this reason he caters with low prices to those with whom it is a matter of the turning of a hand whether or not they will buy. The marginal buyer is the determiner of price upon his side of the market.

The **Marginal Buyer** of a given trade-form is the most indifferent buyer whose participation is necessary to exhaust the supply of such trade-form in the market.

As in the case of the marginal seller, the marginal buyer is often but one of a class of buyers similarly situated. These buyers collectively constitute the “marginal group” of buyers and practically act as one man.

The marginal seller and the marginal buyer in any market constitute its “marginal pair.” The marginal pair are the determiners of market price in normal conditions. But from the fact that the marginal seller is anxious upon his side of the transaction, and the marginal buyer indifferent upon his, it necessarily follows that the preponderating tendency is toward the bid of the marginal buyer, and consequently toward lowness of price.

There are economic forces behind each of these factors of market price, however, which we can not fully analyze until we have considered the subject of value and cost. And there is an economic fact of great practical importance which follows from what has been said in the foregoing discussion, and which will be emphasized by the

discussion of value and cost. It is this: All individual traders above the margin in a normal market are bound by prices fixed by forces outside themselves. In the absence of some monopoly possessed by them—which would render the market abnormal—they do not control the market price, but are controlled by it.

It must at all times be remembered that the marginal seller is not merely the most anxious seller, and the marginal buyer not merely the most indifferent buyer. The marginal seller must control such a stock of trade-forms as will affect the supply of the market as a whole; and the marginal buyer must be a buyer who is needed in the given market to exhaust the supply. He must have desire enough, despite his indifference, to become an actual buyer. He must evince an effective demand.

An examination of the qualifying or limiting clauses in the definitions of marginal seller and marginal buyer will disclose the fact that the marginal seller must usually be a man of some means in order that his supply may affect the entire market; while the marginal buyer may be and presumably will be, in most cases, a man of comparatively small means. In fact, the chances are that the least capable of all the capable buyers will become the marginal buyer in any general market. These facts present another reason why the normal market is more readily affected from the side of the buyer than that of the seller with a consequent tendency toward lower prices. After we have considered the questions of value and cost and the problem of production, we shall be prepared to say that, in a general market of staple trade-forms at least, in normal condi-

tions, the price of trade-forms *already in the market* is fixed by the lowest capable demand of the marginal buyers. We shall also see that this does not controvert the fact, equally important in its place, that the further production or non-production of labor-forms *to be placed in the market* is determined by their disutility to the marginal sellers.

CHAPTER VII.

OF VALUE AND COST.

The question of value is fundamental. * * * The smallest error on that subject infects with corresponding error all our other conclusions; and anything vague or misty in our conception of it creates confusion and uncertainty in everything else.

John Stuart Mill.

We have already seen that men may secure satisfactions in two ways; by means of direct production, technically called industry, and by means of exchange. Attending each of these modes there is a certain disutility. In order to distinguish these disutilities, we have named that attending the acquisition of the desired labor-forms by direct production *industrial* disutility; and that attending their acquisition by exchange, *commercial* disutility.

Of those labor-forms which are consumed by the producer and which, therefore, never actually acquire either commercial utility or disutility, the subject we are pursuing takes no immediate account. But when a labor-form enters the market for exchange it must be considered from two different points of view—that of the seller, and that of the buyer. From the standpoint of the seller its significance arises from its commercial utility; from the standpoint of the buyer, from its commercial disutility.

Let us now recall to mind certain matters which we have heretofore discussed, and examine them more fully. We have seen that men in association are constantly develop-

ing their desires, and as constantly seeking to satisfy them with the least exertion. Fitness to satisfy desire we have designated *utility*; while that which alloys or neutralizes the satisfaction of desire we have called *disutility*. We have seen that while increase of utility is the ultimate object sought, the means used are such as diminish disutility, for only in this way, in the absence of monopoly, can further satisfaction of desire be had with the same effort, or equal satisfaction be had with less effort. We are justified, therefore, in anticipating the fact that any inquiry into normal conditions will be concerned with the reduction of disutility.

Although men, in making exchanges, may be looked upon as divided into buyers and sellers, the fact is that, economically considered, they are both buyers and sellers at one and the same time. The man who exchanges a coat for a pair of shoes is a seller as to the coat and a buyer as to the shoes. And if he sells the coat for money, and with that buys shoes, the effect is the same. So in every transaction between merchant and customer there is upon one side of the counter a seller-buyer, and upon the other side a buyer-seller. This is plain enough when the customer exchanges country produce for dry goods; but if he sells his produce for cash, and with the money buys the dry goods, the intervening step is likely to mislead us. This likelihood is increased by the fact that we are prone to attribute to money some mysterious and peculiar utility, instead of looking upon it as the equivalent, in concentrated and current form, of the commercial utility of that for which it is received, or for which it is paid. This tendency toward

mystery is increased by the fact that the money we use has been given a peculiar and artificial utility by law.

As a seller each man is interested directly and immediately in the commercial utility of his trade-form, the disutility of its acquisition being to him a thing of the past. As a buyer each man is interested directly and immediately in the commercial disutility to himself of the seller's trade-form, its utility being to the buyer a thing of the future. The seller desires that the trade-form in question should have for him great commercial utility; the buyer desires that it should have for him small commercial disutility. The attention of each is centered upon the point of exchange, which to both is the *market price* of the trade-form. But the market price, although the same for both, means vastly different things to them. To the seller the market price represents the commercial utility to him of the thing sold. The difference between this commercial utility and the disutility of acquiring the thing sold represents its positive utility to the seller. Later we shall discuss and define this positive utility as net value. To the buyer market price represents the commercial disutility of the thing bought. The difference between this commercial disutility and the disutility to him of direct production represents a saving, i. e., an avoidance, of disutility which we shall later discuss and define as net salvage.

We learned in our discussion of utility and disutility that in their entireties utilities can not be measured. If a man produces a certain labor-form, as, for instance, a coat, it may have for him but one kind of utility. If he be our

Selkirk alone upon an island, its only utility is that of a satisforn. He has in his consciousness, if not in his immediate possession, some labor-form which has for him but one unit of positive utility—his marginal labor-form. By means of this unit he may compare the coat with other labor-forms and determine which he esteems most and the order in which he esteems them. But he can not measure the absolute utility of the coat. On a bright, sunny day it might at first have practically no present utility; while within a few hours it might so protect him from a storm and its attendant chill as to save his life. As a mere satisforn he may know that he esteems it greatly or but little, but just how much actual utility it may have for him he can not tell.

If Selkirk now produces a rude ax, the utility of this labor-form will be that of an aid-form. The utility to him will be great, but he can not measure its utility as aid-form any more than he can measure the utility of the satisforns in the production of which the ax is used. To Selkirk alone upon his island the utilities of all labor-forms are indefinable at the upper limit. They are comparable with the one at the lower limit—the marginal labor-form—and through it with one another, but as there is nothing definitely to fix the upper limit, no measurement of their entire utilities is possible; for measurement involves not only a starting point and a measuring unit, but also a point to which to measure.

Let us now assume that after Selkirk has returned to civilization he produces a labor-form as at first—a coat—and goes with it into the open market. Its distinctive

utility to him will now be that of a trade-form; its utility to him as a seller in the market will be commercial. This utility may be measured and accurately so, if we secure a proper unit of measurement, since its upper limit is the *point of exchange* and its lower limit the *point of disutility*. Between these two points is a definite utility which stops short, and, it may be, far short of its total utility.

In every civilized community there is a common marginal unit of utility. It is the labor-form having the least utility which men in general will exert themselves to acquire. This common marginal labor-form is typified by the lowest current coin—in the United States a one-cent piece. For unless a labor-form is worth one cent, it is, in general, not worth producing for the market. In the case of those few labor-forms which sell in the market at two or more for one cent, the group which so sells may be considered as a whole, and as a marginal labor-form. The fact that the cent is the lowest coin shows that in the general market it represents the marginal labor-form; the market, like the law, takes no note of trifles.

In practical business, however, one hundred cents, or one dollar, is treated as the unit of trade. Custom in this regard has ripened into law, and for the present we may adopt the customary and legal unit for the measurement of all utility which bears a definite and determinable relation to the common marginal unit of utility. We have, therefore, in respect to utility, when commercial in form, a unit of measurement, a point from which to measure, and a point to which to measure. We now have need of a distinctive term which will express utility when measured;

that is, which will express measurable utility, commercial in form, determined in the market at the point of exchange. For in the absence of an exchange, actual or potential, to determine the point of upper limit no measurement is possible. And this measurable utility is not a common or general utility, but a utility limited to the possessor as a seller in the market. Not only that, but as we shall see, the utility to the seller of a given labor-form is equal, when expressed in price, to its disutility to the buyer.

These elements are all comprehended in the terms *common marginal unit of utility*, *measurable utility* and *value*, which we now define, together with the term *immeasurable utility*.

The **Common Marginal Unit of Utility** is the labor-form having the least utility which men in general will exert themselves to acquire, as typified by the lowest current coin.

Measurable Utility is any utility so circumstanced that it bears a definite and determinate relation to the common marginal unit of utility.

Value is measurable utility at the point of exchange.

Immeasurable Utility is any utility so circumstanced that it bears an indefinite and indeterminate relation to the common marginal unit of utility.

Value is always limited and measured by the point of exchange which is fixed in a general market, not by the total utility of the thing sold, but by its utility to the marginal pair, particularly the marginal buyer. We have also seen that the utility of a labor-form is neutralized more or

less by the disutility of its acquisition. Its value, therefore, takes on two forms—the negative and the positive. To the extent of its disutility its value is negated or canceled, and it is only above the point to which the disutility extends that there is a positive value to the seller. Thus, if a man produces a labor-form at a disutility which may be represented by five dollars, and sells it in the market for ten dollars, the ten dollars represent the total measurable utility to him of the labor-form at the point of exchange, or, in other words, its value. But its value is not all gain. It covers the disutility of production plus the net gain of the transaction. The disutility of production neutralizes the value to that extent, and leaves only a portion of the total value as a positive gain.

We have already learned that some utilities, like those of the air and sunshine in ordinary circumstances, are spontaneous and require no irksome effort upon the part of men to acquire them; that men, by invention, division of labor, exchange, etc., strive to lessen disutility and to attain spontaneity in the acquirement of satisfactions; and that, if this were possible, the point of positive utility would be lowered until it would fall below the point of disutility. If the point of disutility were reached and passed in any case, both value and disutility would disappear, and not till then. Value and disutility, therefore, both begin at the point of disutility. They extend upward together, the disutility canceling the value, until the point of positive utility is reached, while value alone continues to the point of exchange.

If, now, we conceive the value of a labor-form to be rep-

resented by a vertical line, we have three points which must be kept constantly in mind. They are, first, the point of disutility, which marks the lower limit of both value and disutility; second, the point of positive utility, which marks the upper limit of disutility; and, third, the point of exchange, which marks the upper limit of value.

In order that we may distinguish between disutility to the seller and disutility to the buyer, and also between value and that coincident disutility to the seller which negatives value, two new terms become necessary. We shall call disutility to the seller, or the negation of value, *disvalue*; and the positive value which lies between the point of positive utility and the point of exchange, *net value*.

Disvalue is the disutility to the seller of acquiring the thing sold.

Net Value is the excess to the seller of value over disvalue.

- E Let the line A B C D E, extending indefinitely as indicated by the dotted extremities, represent the immeasurable total utility of a given labor-form at a given time and place. Let A represent the point of spontaneity, B the point of disutility, C the point of positive utility, and D the point of exchange. Then the definite dark portion of the line extending from B to C represents the disvalue; the definite light portion extending from C to D represents the net value; and the total definite portion of the line extending from B to D represents the value of the labor-form.
- D
- C
- B
- A

A man who has produced or acquired trade-forms for the market is interested, primarily, in their net value. In order that this may be as great as possible he strives to enlarge it at both the upper and lower limit. In order to attain these ends, he becomes interested, secondarily, in market price and in disvalue, seeking to increase the one and to decrease the other. These constitute practical problems of business life. We must defer their consideration for the present, however, and take up a more extended examination of the market—and this time from the point of view of the buyer.

To the buyer the market price represents the commercial disutility to him of the thing bought; its disutility is the disutility of acquiring the price, instead of the disutility of acquiring the thing itself directly by labor. Thus, a man may produce a pair of shoes and sell them for five dollars, with which sum he may buy a coat which he could make at first hand only at a disutility of ten dollars. To the buyer the difference between the disutility of acquiring the price and the disutility of acquiring the thing itself directly by labor represents a saving—an avoidance—of disutility. This saving of disutility in turn results in an increase in positive utility. It is to secure this resulting increase of utility, through the saving of disutility, that all exchanges are made upon the part of the buyer.

We learned in our discussion of utility and disutility that the marginal labor-form of any individual is his unit of comparison not only of utility, but of disutility; also, that the marginal labor-form has one and but one unit of disutility. For unless it had at least one unit of disutility,

its utility would be spontaneous, and no effort would be made to secure it; and if it had two units of disutility, the second unit would neutralize its only unit of utility, and its utility becoming indifferent, no effort would be made to produce it.

In the United States the real marginal unit of disutility is one cent. Labor that is not of the disutility of one cent either will not be exerted at all, or it will ordinarily be exerted gratuitously. Custom and law, however, having fixed upon one hundred cents, or one dollar, as the unit of commerce, we may for the present treat this as the practical common marginal unit of disutility. All disutility has its lower limit at the point of disutility. Commercial disutility is determined by market price, and its upper limit is fixed by the point of exchange. We have, therefore, with respect to disutility, commercial in form, a unit of measurement, a point from which to measure, and a point to which to measure. We now have need of a term which will express commercial disutility when measured, that is, which will express measurable disutility, commercial in form, determined in the market at the point of exchange. For in the absence of an exchange, actual or potential, to determine the point of disutility to the buyer, no measurement is possible. And this measurable disutility is not a common or general disutility, but a disutility limited to the buyer; for the disutility to the buyer is determined by price, which also determines the utility of the same trade-form to the seller.

These elements are all comprehended in the terms *common marginal unit of disutility*, *measurable disutility* and

cost as we shall now define them, together with the term *immeasurable disutility*.

The **Common Marginal Unit of Disutility** is the irksomeness of attaining the least valuable labor-form which men in general will exert themselves to acquire, as typified by the lowest current coin.

Measurable Disutility is any disutility so circumstanced that it bears a definite and determinate relation to the common marginal unit of disutility.

Cost is measurable disutility at the point of exchange.

Immeasurable Disutility is any disutility so circumstanced that it bears an indefinite and indeterminate relation to the common marginal unit of disutility.

CHAPTER VIII.

OF THE SOCIALIZATION OF UTILITY.

The constant striving of economic progress is toward taking commodities out of the categories of values, and making them utilities like the rain and sunshine.

William Smart.

A man may buy trade-forms to use for the direct satisfaction of his desires, to use productively, or to sell again. In the first case the trade-forms become satisfoms and their distinctive utility ceases to be commercial. In the second case they become aid-forms and their cost becomes an element of the disvalue of the trade-forms produced by their aid. If the trade-forms are bought to be sold again, they remain trade-forms, and their cost becomes disvalue to the owner as a prospective seller.

The buyer deals distinctively with measurable utility. He has the alternative of buying or of producing at first hand whatever he may need. This applies, in strictness, only to those labor-forms which can be made by one man working alone with ordinary appliances. But in a complex system of industry and exchange in which it is impossible for any buyer with his own labor-power and simple facilities to produce a given satisfom, the alternative shifts from total to partial production. A buyer has the choice of working at one trade or at another—of following one profession or another—in securing the trade-forms or

money-forms which he proposes to use in exchange. In any case the disutility of the direct means of acquisition is distinguishable from the indirect, and each may be measured in terms of money. It is as easy to determine how much more a man can make at one trade or employment than another as it is to determine how much more a given labor-form will cost if made at first hand than if purchased in the market. The utility gained by the saving of disutility through exchange is a measurable utility. It represents the saving which results from regular rather than shifting occupation and employment. It lies between cost and alternative cost—between the point of exchange and what we shall call the point of alternative cost.

The **Alternative Cost** of a labor-form is that cost which would be necessitated by the direct processes of industry, if there were no saving of disutility by the indirect processes of exchange.

Between the point of exchange and the point of alternative cost lies that utility gained by the buyer through the saving of disutility and which we shall call his net salvage.

Net Salvage is the saving to the buyer of cost over alternative cost.

The **Point of Alternative Cost** is the point where net salvage ends and measureless utility begins.

Net value and net salvage are very different things, yet they have certain features in common. Both may be expressed in terms of money. Both may be reflected in land values—a fact hitherto overlooked—as we shall see when we discuss the question of ground rent. Because of these

facts the one may become commercially equivalent to the other, but not identical with it in any respect.

It will be noted that value, disvalue and net value pertain to capital-forms; while cost, alternative cost and net salvage pertain to satisforms, it being remembered that cost becomes disvalue to the merchant who buys to sell again, or to the manufacturer who buys raw or unfinished materials for use in his business. Value and cost in their economic sense are manifested only at the point of exchange; but the exchange need not be of the particular thing in question, if it be of one of a class of things which sell at a common price in the market. For instance, it is not necessary to exchange a particular bushel of wheat in the market in order to ascertain its value, for in the same market all bushels of wheat of the same grade are economic equivalents.

Economic Equivalents are things which exchange for each other, or at the same price, at any given time in the same market.

It will be noted, also, that while value is a term applicable only to the seller, and cost a term applicable only to the buyer, yet in any given case value and cost meet in price at the point of exchange. That is to say:

Price is the measure, in terms of money of either value or cost, according to the point of view.

As was anticipated in the last chapter, we have now shown that all the economic forces which center in the market are composed and measured in market price. Value is the resultant of the composition of these forces,

and cost is its exact equilibrant in every case. Economic Science is thus demonstrated to be a true science.

We may now formulate a definition of the point of exchange. Like price, it has a double aspect which must be recognized by definition and kept well in mind.

The **Point of Exchange** is the point where net value to the seller ends and net salvage to the buyer begins.

- E Let the line A B C D E, extending indefinitely as indicated by the dotted extremities, represent the immeasurable total utility of a given labor-form at a given time and place. Let A represent the point of spontaneity, B the point of disutility, C the point of exchange, D the point of alternative cost, and E the indefinite and indeterminate point of immeasurable utility. Then C also represents the point of disutility to the buyer. The definite dark portion of the line extending from B to C represents commercial disutility to the buyer at the point of exchange, or cost. The definite light portion C D represents disutility saved to the buyer, or net salvage. The entire definite line from B to D represents measurable utility; and that portion of the line extending from D indefinitely upwards to the indeterminate point E represents immeasurable utility of the labor-form.
- D
- C
- B
- A

We have called the point of disutility the economic starting point, and the point of positive utility the economic zero point. The point of exchange is the economic meeting point; there value and cost meet in market price

and are both expressed in terms of current money. The point of alternative cost, being the upper limit of measurable utility, is the economic stopping point. Beyond it our inquiry can not go. The point of immeasurable utility is an indeterminate point which, for the sake of convenience, we merely assume to exist; it has no definite reality.

In the diagram shown in the last chapter the net value or positive gain to the seller is measured by the light line C D. In the above diagram the net salvage, or negative gain to the buyer, is measured by the light line C D. These gains may or may not be equal. As long as each line C D represents at least one unit of utility gained, positive or negative, as the case may be, the corresponding trader is capable, and an exchange is economically possible.

We have indicated by alternative cost the disutility which would be required to secure a given satisfaction by direct production. Between the point of exchange and the upper limit of alternative cost lies an utility which is saved to the buyer by the process of exchange. This gain, however, is not limited to the individual buyer. By the law of the market the point of exchange is fixed not by the parties to a particular purchase and sale, but by the marginal pair. The marginal buyer fixes the price in so far as it is affected from his side of the market, and all other buyers participate in the gain by buying at the same price. In the open market, in normal conditions, no man can live unto himself, either as seller or buyer, producer or consumer. If any man acquires a mastery over any disutility of matter, time or space, other men are led to acquire the same mastery, or its economic equivalent in other direc-

tions; and in the regular course of exchange, in the absence of monopoly, the market price of all labor-forms tends to fall, thus lessening cost to all as consumers. With every fall in price the difference between cost and alternative cost is increased for the entire community, and the spontaneity of nature is to that extent more nearly approached by all. Such an increased enjoyment of utility by the entire community, brought about by saving disutility and distributing the resulting benefits to all through the processes of exchange, we shall call the socialization of utility.

CHAPTER IX.

OF MEASURABLE UTILITY AND DISUTILITY.

Value is the calculation-form of utility.

F. von Wieser.

In matters of philosophy and science authority has ever been the great opponent of truth. A despotic calm is the triumph of error.

W. S. Jevons.

It must be remembered that commercial utility is but a form of intermediate utility, and that this again is but a form of relative utility. The remaining portion of intermediate utility, viz., industrial utility, is readily reducible to the commercial form, and at some stage of its existence usually passes through it. Aid-forms are now seldom made by those who actually employ them in industry, but are manufactured by others and placed upon the market as trade-forms. After passing through one or more exchanges, in each of which their commercial utility is primary, and their future industrial utility merely a circumstance which gives them their importance in the market, they become instruments of industry, and their primary utility becomes industrial. A similar transformation is possible, though not so usual, in the case of other relative utilities. Ultimate utilities may at any time be transferred to the category of intermediate utilities, since all satiforms of consequence may be put upon the market, and so be changed into capital-forms. Commercial utility, with its adjuncts, money and market price, furnishes, therefore,

a common denominator to which all relative utilities may be reduced, and thus subjected to measurement.

In like manner commercial disutility is but a form of relative disutility. The remaining portion of relative disutility, viz., industrial disutility, is readily reducible to the commercial form, and in modern methods of production usually passes through it in the form of wages of labor. So true is this that in those cases, now comparatively rare, in which a given person acquires a satisfaction entirely by his own industry, without exchange, he measures this disutility in terms of wages paid in the open market for similar effort. He gauges his effort, not by its own industrial disutility, but by the commercial disutility of a known economic equivalent.

Measurable utility in the hands of the seller is manifested as value, and is limited by the point of exchange; but there is another form of measurable utility which manifests itself as net salvage to the buyer, and, lying above the point of exchange, is limited only by the point of alternative cost, that is, by the limit of measurable utility itself. On the other hand, all disutility is not in the form of cost to the buyer; there is a disvalue associated with every value in the hands of the seller. So that both measurable utility and measurable disutility appear upon both sides of the market in every exchange. It is of these, and these alone, that Economics seeks to know the natural laws.

By means of the foregoing analyses and illustrations we find that while commercial utility and commercial disutility are the only forms in which measurement actually

takes place, all relative utilities and disutilities are measurable by reduction to the commercial form; and that all forms of utility and disutility other than the relative forms are immeasurable. This gives us the fundamental economic classification of utilities and disutilities into those which are measurable and those which are immeasurable.

It will be remembered that the same labor-form which furnishes the marginal unit of utility also furnishes the marginal unit of disutility.

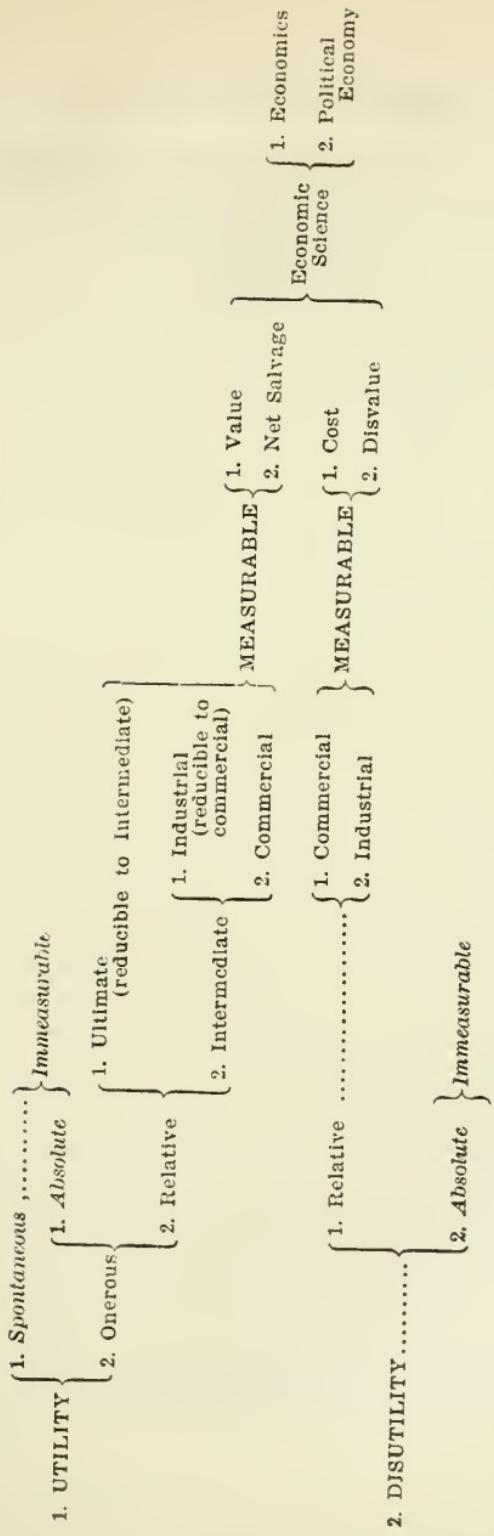
All measurable utilities and disutilities are within the province of Economic Science; all immeasurable utilities and disutilities are without its province. A complete discussion of Economic Science involves a study of Economics and Political Economy. These both treat of measurable utilities and disutilities—and of these only—but from different points of view. All measurable utilities are manifested in the market as value and net salvage; all measurable disutilities as disvalue and cost.

Economic Science is that science which treats of measurable utilities and disutilities.

Economics is that branch of Economic Science which treats of measurable utilities and disutilities in so far as they are unaffected by juridical institutions, laws or customs.

Political Economy is that branch of Economic Science which treats of measurable utilities and disutilities in so far as they are affected by juridical institutions, laws or customs.

The following outline will give a graphic view of our



entire discussion up to this point, and will assist the reader to fix in mind in simple form the analysis which results in measurable utility and disutility, and the synthesis which determines the scope of Economic Science and its branches, Economics and Political Economy. The subdivision of disutility into absolute and relative disutility is shown in inverse order as compared with the corresponding subdivision of utility, thus showing the negative or opposite character of disutility, and at the same time throwing the terms which are involved in Economic Science together in the main body of the outline. Those forms of utility and disutility which we have discarded as not pertinent to Economic Science are shown in *italics*.

Although value is not the whole of measurable utility—net salvage being its complement—it is its most important part inasmuch as net salvage must become the economic equivalent of value in order to be measured. It is, therefore, of interest as well as of importance that we now compare value as we have elaborated and defined it with value as elaborated and defined by standard writers upon economic subjects. Nearly all such writers have attempted a formal statement of the requisites of value, and have usually held with John Stuart Mill that in order to possess value a thing must have utility and must also be difficult of attainment; or, as is sometimes stated, it must be both useful and relatively scarce. This is practically the same as saying that it must have both utility and disutility.

Our discussion has carried us far beyond this distinction, and has led us to analyze the utility which is capable

of producing value. In order to result in value, according to our analysis, the utility of the thing in question must be not only onerous as distinguished from spontaneous; it must be relative—not absolute—and it must assume a commercial form so as to fit it for measurement by the common marginal unit of utility. This classification of the utilities which result in value furnishes an infallible test in that regard and avoids the mistiness created by Adam Smith's unfortunate classification of value into "value in use" and "value in exchange." Value in use, so-called, is simply utility, and does not necessarily have the slightest relation to value at all; while the term "value in exchange" is inexcusably tautological, as value is impossible in the absence of actual or potential exchange. If it be once thoroughly understood and then well remembered that utility does not result in value unless it is onerous in its origin, relative in its intensity, and commercial in its form, no further analysis is necessary, as these terms comprise all the requisites as to utility, and the term "onerous" also implies the requisite of disutility.

The mistiness which has enveloped the requisites of value has also obscured the perceptions of men as to the nature and functions of value itself. The early writers in every field of inquiry have been misled by appearances, and have failed to recognize necessary and fundamental distinctions. The writers upon economic subjects form no exception to this rule. Adam Smith took a superficial view of the phenomenon of value and gave to the world the idea that value, i. e., what he called "value in exchange," is power—"purchasing power."

Never was a mistake more grievously made or more tenaciously adhered to by subsequent writers than this. The idea that value is “purchasing power” runs through nearly all the current treatises on Political Economy, and many of them bluntly define value *as* purchasing power. Some writers speak of this power as if it were something inherent in the object itself, and could reach out and do something in the process of exchange—for “power” denotes ability to act or to do. On the other hand, there prevails a notion, countenanced by many of those high in authority, that value is a sort of force like gravity or magnetism which draws desired commodities to the possessor of the valuable thing, as bodies are drawn toward the center of the earth, or iron filings toward a magnet. Other writers, like Adam Smith, assign this mystical power not to the valuable thing itself, but to the possessor, and make of him a sort of hypnotist or mesmerist of the physical phenomena about him, so that he can control them at will.

Now the simple fact is, as we have seen, that a thing may be useful for the direct satisfaction of a desire, or it may be useful for the indirect satisfaction of that desire through an exchange in the market. It may have fitness—not power—as a trade-form as well as fitness as a satisfaction-form; or, again, its distinctive fitness may be that of an aid-form. In any case its present distinctive fitness to satisfy desire determines the use to which it is put, and fitness to satisfy desire is not power, but utility.

We enjoy both spontaneities and labor-forms; but we value only the latter; and this, not because disutility creates or involves any occult power, but because it results

in giving to utility a commercial aspect. Men do not compete for spontaneities however useful, but only for those useful things which involve disutility; and the competition thus engendered by disutility gives to utility a competitive and measurable form which we call value. The disutility likewise takes on a competitive and measurable form which we call cost. Half of the difficulties of the "dismal science" are solved when we get thoroughly instilled into the mind two ideas; first, that utility is fitness to satisfy desire; and, second, that value is nothing in the world but a form of utility, viz., measurable utility at the point of exchange.

Although the doctrine of Adam Smith that value is "purchasing power" or "power in exchange" has been adopted by John Stuart Mill, Francis A. Walker, Francis Wayland and many other prominent writers, it has not gone unchallenged to the present time. Indeed, Mr. Mill at times apparently abandons the theory that value is power, and speaks of the value of anything as "the quantity of some other thing, or of things in general, which it exchanges for." This reduces value to a mere equation, and is a naïve suggestion that in Economics, as in Mathematics, things which are equal to the same thing are equal to each other. This form of descriptive definition has been followed by a number of writers who apparently have not pursued the matter far enough to see that it amounts to defining (if not reasoning) in a circle. For instance, if we define the value of a hat as the amount of shoes that it will exchange for, and assume that it will exchange for one pair of shoes, then the value of a pair of

shoes is certainly a hat. But what from this do we know about value itself?

It certainly is not asking too much of one who presumes to teach Economic Science to distinguish between value and the measure of value when comparisons are expressed in terms of barter, and between value and price when expressed in terms of money. When we say that the value of a hat is three dollars we do not mean that *value* is *money*, but that the particular value in question is measured in terms of money. What should we think of a writer on Natural Philosophy who defined weight as the quantity of something which would tip the other end of a scale beam? or the weight of atmospheric air as the height of the mercury in a barometric column?

Jevons, an English writer, saw the inconsistency of defining value as a power, and preferred to discard the word *value* entirely and to use instead the expression "ratio of exchange." Under his theory value is a mere relation which one thing holds to another or to all things in general. Francis A. Walker held that value is merely a relation and, therefore, not measurable, but capable of expression only as a term of a ratio. A. L. Perry has amplified this idea by claiming that men really exchange services when they exchange commodities (which is true), and by defining value as "the relation of mutual purchase established between two services by their exchange," which is incomprehensible. Why not define value as something which tends to superinduce mental strabismus, and have done with it? The principles of the science of Economics must be reduced to intelligible ideas, and its

definitions must be clothed in comprehensible language, if this science is not wholly to lose its prestige. As the subject is often treated it is no wonder that ordinary mortals look upon Political Economy as good enough (perhaps) in theory, but useless in practice. A certain amount of congruity must be maintained, if it is expected that people are to treat the matter seriously. When a present day college professor and economist gravely tells us in *italics* that "*value is the capacity to excite desire,*"* men may be excused for concluding, by parity of reasoning, that hunger is capacity to excite appetite; lightning, capacity to excite fear; and Political Economy, capacity to excite credulity.

Utility is fitness to satisfy desire, and value is simply measurable utility at the point of exchange.

* Richard T. Ely: *Outlines of Economics*, page 125.

CHAPTER X.

OF THE POSITIVE THEORY OF VALUE.

A high margin of production both enables and compels society to bid high for the services of its members.

Simon N. Patton.

Measurable utilities and disutilities are reduced to a commercial form by the competition of the market. They start from a common point—the point of disutility. They are measured by a common marginal unit—one cent (or one dollar). Their measurements are expressed in the same terms—those of current money. The upper limit of the commercial utility and of the commercial disutility of a given labor-form is fixed by the same point—the point of exchange. Therefore, the commercial utility to the seller—the value—and the commercial disutility to the buyer—the cost—are both expressed in market price. Value and cost are reducible to a common measure, and for this reason are often treated as if they were one and the same thing. They are not thereby made identical, however, any more than two fractions are made identical when reduced to a common denominator.

Let us carefully examine the nature of commercial utility and disutility. When a thing capable of satisfying desire can be acquired without labor, or with so little labor that its disutility is not worthy of consideration, it may be of the highest utility; but its entire utility is immeasurable; it has no economic utility whatever. Thus, a cup

of mineral water dipped from a public spring is handed by one person to another as a mere courtesy. But if the mineral water is transported to a distant city for medicinal use, it ceases to be a spontaneity and at once acquires an economic utility. Let us assume that the disutility of putting a pint of mineral water upon the market in the city is equal to the common marginal unit of disutility—one cent. In normal conditions its commercial utility is greater than its industrial disutility, or it will not be put, or at least not kept, upon the market. Let us, therefore, assume that it sells for two cents a pint. Its disutility to the buyer, or cost, is then the equivalent, in terms of the common unit, of its commercial utility, or value.

Thus, while the particular producer puts a pint of mineral water on the market at an industrial disutility of one cent, the buyer prefers to acquire it at a commercial disutility of two cents rather than stop his regular calling, or otherwise be put to the inconvenience of producing it himself. Doubtless he is so circumstanced that he can not produce it for himself except at a far greater disutility than two cents. The market price, therefore, to him, not only represents commercial disutility, but it measures an avoidance of industrial disutility—a saving of labor-power. The utility in his hands is thus increased by the amount of the industrial disutility saved.

In this way it may be seen that while utility is one thing and disutility another and directly opposite thing, yet the measure of the one is reducible to the terms of the measure of the other, because the diminution of the one is equivalent to a corresponding increase of the other.

It is natural and logical, therefore, that value and cost should both be expressed by price at the point of exchange. It is not logical, however, to ignore the fundamental difference between utility and disutility, or to treat disutility as the principal element of value, as is done in the "labor" and "labor cost" theories of value. As well might the natural philosopher say that cold is the controlling element of heat, or darkness the principal constituent of light.

It is true that the commercial utility of a trade-form is largely its utility in procuring for the seller the labor-power or labor-forms of others. But these facts do not justify a jumbling together of the ideas of value and cost. Men do not buy labor-forms for the sake of acquiring the disutility attending their production, but in order to acquire their present utility. And while a man may buy and sell by one and the same act, he is distinctively either a buyer or seller in the common acceptation of those terms. In actual business life no confusion ever arises upon this point. The problem of every man as seller differs from his problem as buyer. The immediate problem of the seller as a producer is to acquire net value; while the immediate problem of the buyer as a final consumer is to acquire net salvage. The one is interested in the production and sale of capital-forms; the other, in the acquirement and consumption of satisfoms. If the buyer buys to sell again, he thereby converts his net salvage into net value and becomes distinctively a seller. His cost as a buyer becomes disvalue to him as a seller, and he reckons his whole gain upon the last transaction. This

he can readily do since net salvage and net value are both expressed and measured in terms of money.

The seller seeks for utility in the form of net value; the buyer seeks utility also, but in the form of net salvage. The seller, as producer, acquires utility directly by creating it; the buyer, as consumer, obtains it indirectly by saving—avoiding—disutility. This explains why it is that both buyer and seller may be benefited, and equally benefited, by an exchange. If the only exchange possible were the exchange of one positive utility for another equally desirable, and there were no place in the process of the market for the negative feature by which disutility saved is the equivalent of utility acquired, then what one person gained in exchange the other would necessarily lose. But since the seller can create utility for the use of another to greater advantage than for his own direct use, and the buyer can acquire such utility for his use at less disutility by exchange than by direct production, the competitive system, in itself, is a labor-saving device of great economic utility. This great principle of the market is overlooked by the omnisocialist. He maintains that in every exchange the gain of the seller is necessarily at the expense of the purchaser. Said Karl Marx: "Circulation [exchange in the market] sweats money from every pore."*

Let us bring our definitions of value, cost, and price to the test not only of the usual, but of all the phenomena of the market. It has been said that water has great

**Das Kapital*: Moore and Aveling's Translation, page 54.

utility, but scarcely any value, while a diamond has great value and *scarcely any utility*. The words italicized are directly opposite the truth when *value* and *utility* are properly defined and distinguished. Utility is simply fitness to satisfy desire, and desire exists not only for necessities, but also for luxuries. Value is but a form of measurable utility, and measurable utility is but a part of entire utility. Hence, to say of a diamond that its value is greater than its utility is to say that a part of utility is greater than the whole, which is impossible in Economics as truly as in Mathematics.

We need not wear diamonds for personal comfort, and, individually, we may not care to do so for personal adornment. Yet we know, as a matter of common knowledge, that in the market diamonds have a very great utility to the seller at the point of exchange. They bear a high price utterly regardless of what we may think of the relative merit of the desire which prompts their purchase. It is not the merit of men's desires, but their relative intensity with which Economics has to deal, and the desire for diamonds is exceedingly intense. The industrial disutility of diamonds is very great, but just so long as some men are willing to acquire diamonds at a great commercial disutility so long will other men undergo the industrial disutilities of their production, and so long will diamonds have great commercial utility for the producer. The price of diamonds is fixed by the marginal pair in the diamond market, but the marginal buyer of diamonds is far above the marginal buyer of staple articles in ability to purchase.

In the current theories of value exception must be made in the case of certain labor-forms which are rare and incapable of reproduction, as pictures by famous painters, heirlooms and the like. It is commonly said that the ordinary laws of value do not apply to these, and various explanations are given for their great value. In the first place, they are frequently spoken of as having great value when they are not in the market at all, and hence have no commercial utility whatever. The word *value* when applied to them is then a misnomer from an economic point of view. But when such things are put upon the market, they are subject to all the laws of value, cost, and price, and do not differ in any wise from other articles which sell in a one-sided instead of a general market.

In this connection we may also consider the case of articles which sell at church fairs, or in other unusual markets for much more than their usual market values. The peculiar circumstances give to such objects increased commercial utility, and they are acquired by the purchaser at increased commercial disutility so far as the transactions have any economic significance. If, however, the additional price paid be considered as a donation rather than as purchase money, such a case is removed from the province of Economics.

The foregoing definitions and explanations of value and cost apply not only to all labor-forms, but to labor itself. We have seen that the expenditure of effort in the satisfaction of desire is not necessarily and always irksome. Up to a certain point exertion may give pleasure, while beyond such point it may become more and more irksome.

Economics takes note of productive efforts only when they involve irksomeness. Those expenditures of effort which give pleasure, or to which men are practically indifferent, correspond to the spontaneities of nature among material substances. Hence, in the matter of human exertion the point where irksomeness begins is the point of disutility. The point at which irksomeness ceases to cancel the benefit derived from exertion is the point of positive utility, and the benefit lying beyond this point is the positive utility of the labor performed. Inasmuch as the concrete result of such labor—the resulting labor-form—avails the laborer in the market, the labor itself possesses a commercial utility and commands a price. The point of exchange becomes the upper limit of commercial utility to the seller, and of commercial disutility to the buyer of labor, and thus all the requisites of value and cost appear in relation to the exertion of labor-power. All the laws of the market prevail with reference to labor just the same as with reference to labor-forms. The exertion of labor-power directly in the form of personal services corresponds in function to the satisforms among labor-forms; while labor-power expended in the production of labor-forms for future use corresponds in function to capital-forms.

The labor-cost theory of value looks upon irksomeness as the distinguishing characteristic of labor-power and treats labor wholly as a matter of cost, or disutility. But labor-power has utility as well as disutility, and it is its positive utility which gives to it its real economic significance. Wages are paid for the utility of labor-power;

its disutility is a mere circumstance which prevents its utility from being spontaneous. It is only negatively that disutility enters into the question of value. The positive theory of value is the theory based upon utility.

There is still another phase of the phenomena of value and cost to which our definitions and discussions must apply, if correct and complete. They must apply to the phenomena of the market with reference to land-forms. In order that we may make a necessary distinction between utilities which are the distinctive results of labor-power and those which are not, we shall repeat two of our definitions and then add a new one, as follows:

Labor-Power is the physical or mental power of man irksomely exerted for the satisfaction of desire.

A **Labor-Form** is any material substance, great or small, so circumstanced that its present distinctive utility is the result of labor-power.

A **Land-Form** is a definite portion of the earth's surface, great or small, together with all the utilities which may be enjoyed thereon or in connection therewith, except those utilities which are distinctively the result of labor-power.

It may appear at first blush that it is difficult, if not impossible, in many cases to distinguish between labor-forms and land-forms. This is especially true in those cases in which the change made by labor-power is comparatively slight and does not separate any material substance from the soil. But all difficulty practically vanishes as soon as it is remembered that Economics treats not of forms merely, but of utilities and disutilities; and not of

utilities in general, but of those distinctive utilities which may be measured. Thus, a field in its natural state may be of the value of fifty dollars per acre, while its added utility, when plowed, is one dollar per acre. It is not necessary in such case to say that the field, when plowed, is merely a land-form, or entirely a labor-form. The added utility given by labor is capable of separation and measurement. So long as the two utilities are so distinct that a price may be set upon each, there is no difficulty in separating them, either in thought or in actual business transactions. It is not unusual in the sale of farms, after plowing has been done, for the land to be priced at so much per acre, with an additional charge per acre for the plowed fields. To the extent of their added value these fields are practically labor-forms. Whenever natural and artificial utilities are so blended that all market distinction is lost, there is no necessity for their separation in thought or otherwise, and all economic distinction as to form ceases.

A similar difficulty arises in the minds of some with respect to distinctions between land-forms and improvements thereon. Yet it is well known that bare land-forms have a value wholly separate and distinct from the values of the improvements; when all improvements upon a land-form have been swept away by fire this is easily seen. Buildings are often erected upon leased land, and thereafter the buildings and the bare land-forms are valued and sold separately. Not infrequently city lots are sold with leave to the seller to retain and remove all improvements. And even in those cases in which the improve-

ments are practically inseparable from the land-form itself, as in the case of drain tile, the value of the utility added by labor may be computed. The difference between the values of tiled and untiled land in the same neighborhood and of like natural fertility is well known. In such cases as these, as in the case of the plowed field, whenever there is such a merger of labor-form and land-form that the distinction can not be noted in the market and expressed in price, the economic distinction as to form ceases, the land-form absorbing all utility.

In all cases in which the substance in question is separate from the soil, the test as to whether it is a land-form or a labor-form is simply this: What is its present distinctive utility? Is, or is not this distinctive utility the result of labor-power? If its distinctive utility results from a change of form or place, or both, brought about by labor-power, then it is a labor-form; otherwise it is a land-form.

Some land-forms may be acquired without disutility, either industrial or commercial. In such case they have no commercial utility so long as land-forms equally desirable may be acquired by others in like manner. But as soon as the acquisition and possession of a land-form carries with it a utility for which men will compete, such land-form acquires both commercial utility and commercial disutility. The point at which competition for land-forms begins is the point of disutility, while the point at which the effort to acquire them ceases to cancel or neutralize the utility of their possession and enjoyment is the point of positive utility. Since land-forms furnish the materials out of

which all labor-forms are made and from which all material satisfactions arise, they will, when reduced to exclusive private possession, bear prices in the market according to their relative utilities. Their price will fix the upper limit of both their commercial utility to the seller and their commercial disutility to the buyer. Land-forms, therefore, acquire all the elements of value and cost, and are amenable to all the laws of the market. The distinctive conditions, however, which tend to govern the prices of land-forms as to whether they shall be high or low are not the same as those which tend to govern the prices of labor-forms. In fact, the tendencies of their respective prices are in opposite directions. The prices of land-forms tend to increase, while the prices of labor-forms tend to diminish as population in any given territory increases. The reason of this is that an increase of population within a fixed territory tends to develop a one-sided market as to land-forms, and a general market as to labor-forms. In one case the tendency is for the price to be fixed by the necessities, and in the other by the indifference of the marginal buyer.

For the sake of brevity and clearness we have hitherto assumed the presence of normal economic conditions. The definitions which we have developed, however, apply to abnormal conditions, also, subject to necessary qualifications. For instance, a labor-form may sell upon the market at less than the cost of production, or, as we would express it, its value may be less than its disvalue. In such case, the point of exchange will lie below the point of positive utility, and the disutility will more than cancel

the utility. And since the disvalue will exceed the value, there will be a loss instead of net value to the seller.

Such abnormal conditions can not long persist. In the ordinary course of business the value must be sufficiently great to create a net value, or the producer will cease his efforts. It is well to note in this connection, moreover, that neither the cost of present production nor the cost of present reproduction of the particular labor-form determines its price. The price, as we have seen, is determined partly by the disutility of like labor-forms to the marginal producer, and partly by their utility to the marginal buyer, the tendency, in a general market, being toward the latter. For just as the price in such a market is fixed independently of any particular buyer or seller above the margin, so it is fixed independently of the industrial disutility, past or present, of any particular labor-form above that produced and purchased by the marginal pair. The industrial disutility of particular labor-forms even at the margin must be less than the market price, or their production will cease; but once they are produced and put upon the market they will sell, if at all, at the price fixed by their utilities and disutilities to the marginal pair. As we have already seen, a labor-form is not produced in the economic sense until it is put upon the market. An ax is not produced when it is completed at the factory. It must, under the present system, be boxed or crated, and then carted and shipped, first to the wholesaler, and then to the jobber, and finally to the retail dealer, to be exposed by him for sale to the final consumer. All the men so handling the ax prior to its final sale are pro-

ducers. Exchange is just as truly a part of the economic process of production as industry. A seller, economically speaking, is a producer.

If it be true, as the theory which we have developed maintains, that value is essentially a limited or measurable portion of utility, that its lower limit is fixed by the point of disutility, and its upper limit by the point of exchange, which, in turn, is determined by the utilities and disutilities of the marginal pair, then it behooves Economic Science to inquire into all the conditions which may surround or affect the men who produce and purchase at the margin. For if they are the determiners of value, cost and price, then all economic research must extend to them and not exhaust itself in a study of those conditions which chiefly surround those who are farthest from the margin. And if it be true that the practical problems of industry arise from man's attempt to secure the greatest net value with the least exertion, and that net value lies between two movable points—the point of positive utility and the point of exchange—then it behooves the economist of a practical era to examine critically all those means by which each of these points may be raised or lowered. And since under the theory herein discussed the ultimate end and aim of the problems of Economics is the acquisition and enjoyment of net value and net salvage, by seller and buyer, respectively, the questions of value, cost and price, and the means by which they may be manipulated, become of supreme economic importance both to the individual and to society.

CHAPTER XI.

OF THE ORIGIN OF VALUES.

Utility is the purpose of economic life. Whatever increases utility has value.

F. von Wieser.

A few of the simpler labor-forms may be produced by the application of labor-power directly upon land-forms. But in modern industry practically all production is effected by the interposition and assistance of capital-forms. We have, therefore, for use in normal production three forms of utility, and only three—the utility of labor-power, the utility of capital-forms, and the utility of land-forms. On the other hand, normal production has to contend with three, and only three disutilities—the disutility of matter, the disutility of time, and the disutility of space. It must be understood, however, that the real physical element involved in the first mentioned disutility is not matter but force. Matter is but a manifestation of forces in equilibrium; it has no body or substance of its own. But as all forces manifest themselves to us through what we call matter, we shall, for convenience, use the latter term, meaning thereby the resultant of forces in equilibrium. With this understanding we may divide our physical environment into the elements of matter, time and space. Without each of these neither we nor anything within our comprehension can exist. They are all as necessary to us as sentient beings as life itself; yet each has for us a distinctive disutility.

The disutility of matter manifests itself in resistance to labor-power. Although all production consists simply in changing the form or position of material objects, such changes are attended by irksomeness, just as all movements of machinery, however perfect, are attended by friction. Were it not for the disutilities of matter and space, all satisforms would be spontaneities, and the exertion of labor-power unnecessary. The only economic disutility would be that of time—the disutility of waiting.

The distinctive function of labor-power is to overcome the disutility of matter. Its utility depends upon its fitness for this purpose. The value of a labor-form which is distinctively the resultant of the utility of labor-power and the disutility of matter we shall call labor value. This term we shall define later.

To a very great extent, but not entirely, the utility of capital-forms is identical with that of labor-power. Capital-forms are themselves the result of labor-power and can only be used in connection with its further exertion. Of themselves capital-forms can do nothing. As labor-forms they sell in the market, subject to the same laws of value and cost as satisforms. Their prices are fixed by the marginal pair. But aside from being sold outright, capital-forms may be sold for a limited time. One man may be possessed of a labor-form for which he has no immediate need. Another may be in present need of such a labor-form without having it in immediate possession. In such case the latter person, in order to secure its immediate possession and use, may offer to take it, and, at the expiration of a given time, return it, together with a part of

the product acquired by its use as a capital-form. If such an offer is made, it is because the present advantage of the possession and use of the capital-forms is at least equivalent, in the mind of the borrower, to the disutility of its repayment, plus the payment of the part of the product as interest. And if, as is usually the case, the amount of product to be repaid is fixed by competition in the market, and money-forms are borrowed instead of particular capital-forms, the sum borrowed in the present and the sum to be repaid in the future are economically equivalent. For instance, if John on the first day of the year borrows from James in the open market \$100 upon agreement to return \$105 at the end of the year, then, on the day of the borrowing and in that market \$100 for present possession and use, and \$105 for possession and use one year thence are economic equivalents.

If the offer to borrow with repayment with interest is accepted, the capital-form or equivalent money-form loaned acquires a new and distinctive utility. It is no longer merely auxiliary to labor-power in overcoming the disutility of matter, but it is a direct instrumentality in overcoming the irksomeness of waiting—an aid in mitigating the disutility of time.

The labor-form loaned has to men in general less future than present utility because of the disutility of deferred satisfaction. We have already seen that men usually place a lower estimate upon a given labor-form for future than for immediate enjoyment. Under a specialized system of industry, however, some men acquire quantities of labor-forms (or money-forms derived from the sale of labor-

forms) which they do not immediately require for ordinary uses. In such circumstances they are willing to surrender present possession to others who are so circumstanced as to put them to profitable use. On the other hand, other men have present need of the labor-forms, or their equivalent in money, and are willing to undergo a larger future disutility rather than a smaller present one. They do this not because they are improvident of the future, but because the immediate possession and use of the labor-forms as capital-forms will enable them not only to acquire a larger product in the same time, but it will also give them their product in less time. If the use of labor-forms merely assists labor-power in overcoming the disutility of matter, the disutility of time remaining the same, the result is the same as if more labor-power were used, and no additional and distinct disutility is overcome. But if the use of labor-forms enables the possessors to acquire and enjoy the finished products of their labor-power sooner than they otherwise would, it thereby overcomes or lessens the disutility of time. This is the distinctive utility of pure capital in production as distinguished from the distinctive utility of auxiliary capital.

Capital is labor-forms so circumstanced that their distinctive utility is manifested either in overcoming the disutility of time, or in assisting labor-power to overcome the disutility of matter.

Pure Capital is labor-forms so circumstanced that their distinctive utility is manifested in overcoming the disutility of time.

Auxiliary Capital is labor-forms so circumstanced that

their distinctive utility is manifested in assisting labor-power to overcome the disutility of matter.

The labor-forms involved in capital, whether pure or auxiliary, are distinctively possessed of intermediate utility and hence are capital-forms. *Land-forms never constitute capital*, either auxiliary or pure.

Both pure capital and auxiliary capital may consist of aid-forms, ordinary trade-forms, or money-forms. If these forms, or any of them, are used to assist labor-power in overcoming the resistance of matter, they are auxiliary capital; if used specifically to overcome or to lessen the disutility of time, they are pure capital.

Auxiliary capital, when put upon the market, is sold outright and at its labor value. Its distinctive value is expressed in price. But pure capital is not sold outright, but only for a limited time. Its distinctive value is not expressed in price, but in terms of interest, and is not a labor value but a capital value.

Labor Value is that value which is distinctively the resultant of the utility of labor-power (with or without the use of auxiliary capital) and the disutility of matter.

Capital Value is that value which is distinctively the resultant of the utility of capital-forms and the disutility of time.

In order that we may distinguish clearly between capital value and labor value, let us consider a simple illustration. Two men working side by side produce separate labor-forms. Their customers are fishermen. One worker produces a hammock suitable for a fisherman's home; the other, with like materials and equal disutility, produces a

fish net, or seine. Together they go into the market and offer their wares for sale. In their hands the two products are capital-forms. After they are sold, the seine remains a capital-form (changing from a trade-form to an aid-form) and the hammock becomes a satisform.

Each of these articles can be made by any person of ordinary skill, and the materials can be acquired in the open market or made at first hand with very little disutility. It will take the ordinary fisherman as long to stop his work and make the one as the other. In these circumstances the tendency is that the hammock and seine will sell in the open market at the same price. It is true that the hammock as a satisform does not assist its purchaser in catching fish, while the seine as a capital-form may double or quadruple the catch of its possessor. Yet the satisform and the auxiliary capital-form may have the same value—they may be economic equivalents.

That this should be true may at first seem strange. But if we have thoroughly mastered the laws of the open market, we shall readily understand why it is so. If the fishermen were to pay more for seines than for hammocks, the hammock makers would all turn seine makers, inasmuch as they would thereby gain more compensation for the same disutility. This would cause so great competition among the sellers of seines that the marginal seller would bid down to what he could make by selling hammocks, and all others would be compelled to sell at his price. It must be remembered that value does not express utility in general, but only measurable utility at the point of exchange, and the point of exchange is determined by the

competition of the marginal pair. In so far as value is expressed in the market price of labor-forms there is no distinction between the values of capital-forms and satis-forms—all are labor values. They are values which distinctively result from the utility of labor-power applied directly or indirectly, and the disutility of matter.

But while the use of labor-forms in overcoming the disutility of matter simply increases the efficiency of labor-power in that respect, and so merely affects labor values, yet labor-forms may be so circumstanced as to overcome the disutility of time. Suppose that in the seine and hammock market there is a buyer who has a hammock but is without a seine, the present possession of which would be of great advantage over its future possession. He may work at fishing with a hook and line, and in the course of a year may acquire the price of a seine, thus suffering all the irksomeness of deferred satisfaction; or, he may buy the seine at an enhanced price payable at the end of the year. By obtaining possession of the seine he can enter *at once* into the enjoyment of the maximum fruits of his labor-power, and thus obviate to a large extent the disutility of time. With him it is not merely a matter of having more fish, but of having them to-day rather than next year.

In such circumstances he may either buy a seine “on time” at a higher price, or he may borrow the present cash price and repay the loan in one year with interest. In the former case the seine sells at its labor value plus its capital value, and both are expressed in price—the interest is added to the principal in advance. In the latter case

the seine sells at its labor value as expressed in cash price, while the money-forms borrowed sell for a limited time at their capital value as expressed in terms of interest. The distinctive utility of auxiliary capital is its fitness to assist labor-power in overcoming the disutility of matter; its value is always a labor value, and is always expressed in price. The distinctive utility of pure capital is its fitness to overcome the disutility of time; its value is always a capital value and is usually expressed in terms of interest; but whether so expressed or not, it is, in fact, interest or its economic equivalent.

In the above illustration we find that if the purchaser of the seine buys it on a year's time, the seller adds to the cash price a year's interest and collects it as a part of the price payable at the end of the year; while if the purchaser borrows the money and pays the present cash price for the seine, he pays the lender the interest at the end of the year *as interest*. In either case the effect is the same, and each transaction results in the payment by the purchaser of the labor-form of positive economic interest.

In another class of transactions economic interest appears in a negative form very similar to that commonly called commercial discount. In many business enterprises a long time must necessarily intervene between the beginning of a given product or project and its completion. Let us assume that a large factory is to be built and equipped with modern machinery, and that its erection and equipment will occupy a year's time. If all the men engaged in the work could and would wait until the end of the year and as much longer as might be necessary for

the factory to pay them out of its earnings, their daily wages would be relatively higher. But as is practically always the case in such circumstances, the workmen are paid daily or weekly or monthly wages by the owners of the enterprise, or contractors under them, and the owners wait until the factory is in operation to reimburse themselves for their outlay. The wages paid are consequently lower than they would be under the arrangement first suggested by the amount of interest at current rates for the average time to elapse between the payment of the wages and their anticipated reimbursement. This difference in wages on account of present rather than future payment is economic interest in the form of discount paid by the workmen to their employers for present rather than future enjoyment of the results of their labor-power. The workmen thus avoid the disutility of time at the expense of their employers who recoup themselves by the payment of wages lower than if paid at a future time out of the actual earnings of the enterprise.

This element of interest in the form of discount manifests itself in lower prices of labor-forms which enter into long-time enterprises as well as in lower prices for labor-power, or wages. Dealers who contribute raw materials or labor-forms of any kind towards the construction and equipment of such a factory receive a smaller cash price for their products than if they waited until the completion and partial operation of the factory. Economic interest is more apparent in this case than in the case of wages because in the sale of labor-forms a commercial discount for cash, measuring the economic interest, is commonly

allowed upon the face of the transaction; while in the sale of labor-power such a commercial discount is practically unknown as between employer and employe, and wages are usually payable at the end of each week, fortnight, or month, and are lower accordingly.

From these illustrations we learn that there is a disutility of time; that pure capital-forms have fitness for mitigating this disutility; and that for this reason men pay a premium for their immediate possession just as readily as they pay a price for auxiliary capital-forms which will enable them to overcome more readily the disutility of matter; and that, on the other hand, a person who has acquired labor-forms has a choice of their immediate and direct consumption as satisforms; their out and out sale to others for use either as satisforms or auxiliary capital-forms; their limited sale, or loan, as pure capital-forms; and their use by himself as capital-forms, either auxiliary or pure. In case they are used by himself or another as pure capital, they have distinctively a capital value which is measured directly or indirectly by the current rate of interest for capital-forms put to similar uses.

We also learn that not only do capital-forms assume a different aspect according as they are used as auxiliary capital or pure capital, but that pure capital-forms likewise assume a different aspect according as they are used positively or negatively—according as they are measured in the market by commercial interest or commercial discount, or their commercial equivalents as additions to or deductions from current prices of labor-power and labor-forms.

The value of a land-form is neither labor value nor capital value. It is not the resultant of the utility of labor-power or capital-forms applied to overcome any disutility of the land-form. This may be seen from the fact that vacant land-forms upon which not a stroke of labor, or a dollar's worth of capital has ever been expended, may acquire enormous value, if well located in a populous community. The origin of the value of a vacant lot or of any land-form irrespective of the improvements thereon must be sought elsewhere than in the utility of particular labor-power and capital-forms. The commercial utility, or value, of any land-form depends, primarily, upon its location with reference to population; secondarily, upon its natural utility. The most fertile spot on the earth may be valueless, if far from any civilized community, or, for any reason, inaccessible. On the other hand, the most barren spot may be of almost fabulous value for building purposes, if situated in the heart of a great city.

All land-forms of value have utility enough of one or both kinds to cause competition for their possession and use. This leads to the manifestation of the distinctive disutility of land-forms. It arises, not from the resistance of matter nor the irksomeness of waiting, but from the physical fact that two human beings can not have the exclusive occupancy, use or control of the same land-form at the same time. Impenetrability—that property of matter by virtue of which two bodies can not occupy the same space at the same time—manifests itself in Economics as well as in Physics. If all men with equal facility could occupy and enjoy the utilities of the same land-form

at the same time, no land-form would acquire any value, however fertile it might be; for all men could appropriate it and enjoy all its utilities with equal disutilities. But if all land-forms were of equal fertility, all could not be at the centers of population and exchange. All stores could not be on the public square; nor could all farms be equally distant from post-office and railroad station. A farm growing an average of 15 bushels of wheat per acre, but near a market, may be of greater value than one of equal size growing 20 bushels per acre farther away.

The disutility which arises in the use of land-forms is the disutility of space. We are acquainted with this disutility through the physical phenomena of distance and impenetrability. With reference to distance, it manifests itself to us through the irksomeness of travel and transportation; with reference to impenetrability, in the irksomeness of *standing aside*. It is one thing to be deprived of the use and occupation of a given grade of land-forms when such grade does not exist in a particular community; but it is quite a different thing to be deprived of such use and occupation when and where such land-forms do exist and are exclusively used and occupied by others. The irksomeness of *standing aside* while another occupies and enjoys is a real, though intangible, irksomeness, similar in that respect to the irksomeness of waiting.

The more travel and transportation necessarily involved in the occupancy and use of a given land-form with reference to market and other advantages furnished by society, the less valuable the land-form; and the greater the distance one stands from these advantages, the less

value the land-form which he occupies. Inversely, the value of an advantageous land-form does not result from irksomeness in the possession and use thereof, but from the comparative absence of irksomeness. It is the disutility which may be avoided and not that which is engendered by the possession, use or control of a well situated land-form which gives it value in so far as the factor of disutility is concerned. The irksomeness of travel, transportation and standing aside may all be avoided or reduced by the occupancy of a well situated land-form.

The man who desires to occupy some land-form as owner must either dispossess the present owner of a land-form near to market, or otherwise well situated, or he must undergo the continuing disutility of transportation of person and property which necessarily attends the occupation and use of a land-form far from market, or otherwise ill situated, as well as the continuing disutility of seeing another possess and enjoy desired advantages from which he is debarred. In countries where land laws similar to ours prevail the present owner is dispossessed, not by force, but by purchase; by inducing him to relinquish his claim upon a certain area of the earth's surface; for in Economics, as in the law, the right to superficial area of land-forms carries with it the exclusive control of all terrestrial space above and below, and all the forces, resources and opportunities of nature therein contained. The disutility in the acquisition of land-forms is therefore the disutility of space. For, although the problem of the purchaser in acquiring a desirable land-form just at hand

is the dispossession of the present owner, this is but incident to the fact that both can not occupy or exclusively control the same space at the same time. And if instead of purchasing the more desirable land-form, a man concludes to occupy one upon the margin, the disutilities of travel, transportation and standing aside which he undergoes are also but exemplifications of space relations.

All things which are produced by the exertion of labor-power necessarily involve the disutility of matter and of time. Production consists simply of changes wrought by labor-power upon material objects, and these changes imply the passing of time. Land-forms, as we have defined them, can neither be produced nor reproduced by labor-power, so that no disutility of matter or of time can affect their value directly or indirectly. In the competition of the land market two factors arise with reference to every land-form—its natural utility, whether arising from fertility or location—and the disutility attending terrestrial space. The resultant is land value.

Land Value is that value which is distinctively the resultant of the utility of land-forms and the disutility of space.

Although a land-form in Economics and in law involves the three space dimensions—length, breadth and thickness—we usually think only of length and breadth. A title deed carries with the land conveyed the exclusive right to the air above and the earth (to the center) beneath, yet the description given is of so much length and breadth upon the surface. The land question at bottom is a ques-

tion of standing room—standing room accessible to the market.

The matters discussed in this chapter naturally lead to the question of wages, interest and ground rent. We will not, however, stop to discuss them here as they may be more comprehensively treated in another place. It may be well to state in passing that wages, interest and rent are not matters of quantity, but of value. Wages is labor value; interest is capital value; and ground rent is land value determined in the market at the point of exchange, and expressed in terms of money. We shall now examine and classify values with reference to their distribution.

CHAPTER XII.

OF MARGINAL AND DIFFERENTIAL VALUES.

The imperfection of equality of competition may be met and overcome by securing equality of opportunity for individuals.

John A. Hobson.

We have seen that the market price and, consequently, the value of labor-forms is fixed by the competition of the marginal pair. Men do not sell cheap because they have acquired their wares at relatively small disutility, nor pay high prices because they are abundantly able to do so. The seller, however fortunate in the acquisition of his trade-form, gets all he can, but is bound by the price fixed by that seller who, having a supply sufficient to affect the entire market, is most anxious to sell. While the buyer, however well to do, buys as cheap as he can, and pays only the price bid by that buyer who, being necessary to exhaust the market supply, is most indifferent. We shall now examine those conditions which determine the identity of the marginal seller and the marginal buyer, respectively, and tend to produce anxiety in the one and indifference in the other; it being understood that the marginal pair are representatives of marginal groups of sellers and buyers, respectively.

With reference to the seller we may state that in normal conditions and in the long run a man will not sell labor-forms at less than their industrial disutility. The great desideratum to the seller is net value, and in all economic

exchanges more or less net value is acquired. Unless the point of exchange is above the point of industrial disutility, production in any given case must soon cease and the exchanges made are abnormal.

All production results from the application of labor-power (directly, or indirectly by the use of capital-forms) to land-forms. This is readily seen, if we consider carefully the fact implied in the definitions already given that the external world at any given time consists entirely of land-forms and labor-forms. All labor-forms used in further production either as aid-forms or as partly finished material are capital-forms; while land-forms, by definition, include not only what we usually call land, but all the opportunities, forces and resources of nature connected therewith or available thereon. Therefore by eliminating capital (labor-forms) from the productive process we have left only labor-power upon the one side and land-forms upon the other. By introducing capital into the process we merely assist labor-power or mitigate the disutility of time.

We may state, further, that the disutilities of production are greater on some land-forms than on others; that a definite number of land-forms are necessarily used to supply the demand of a given market, and that some seller must produce upon the poorest land-form necessarily used to supply the demand of such market. His disutility is greatest of all, and the gross value of a given product being the same for all in the common market, he necessarily receives the least net value of all the sellers of such product in that market. The land-form upon which he produces is the marginal land-form, and he is the marginal producer.

Usually several land-forms are so situated or conditioned with reference to the market that their net values from a given expenditure of labor-power, assisted by given capital-forms, are substantially equal. These land-forms constitute the economic margin. All producers who occupy the economic margin constitute the marginal group in production.

The **Marginal Land-Form** with respect to a given market is a land-form upon which given labor-power, assisted by given capital-forms, will produce the least net value of any land-form necessarily used to supply such market.

The **Economic Margin** of a given market is the aggregate of all marginal land-forms which are tributary to such market.

It must be understood that the economic margin is distinctively an economic, and not a territorial boundary. A land-form may be very near a great market, territorially, and yet be upon its margin economically, while other land-forms, territorially very distant may be far above the economic margin. Liverpool is the world's market for wheat; yet some of the best wheat lands are on the other side of the globe, and some of the poorest near at hand. A land-form in England and one in Dakota yielding the marginal return in the production of wheat for the Liverpool market are both upon its economic margin. All land-forms, wheresoever situated, which yield the marginal return for land-forms tributary to any given market, constitute its economic margin; while any land-form, wheresoever situated, which yields more than the marginal return for land-forms tributary to such market, is a superior land-form.

The **Marginal Return** is the value which may be acquired with a given disutility upon the economic margin.

A **Superior Land-Form** is any land-form which, with the same disutility, yields more than the marginal return.

A **Marginal Producer** is one who produces upon a marginal land-form.

The **Marginal Group** of producers embraces all who produce upon the economic margin.

In any market it is inevitable that, as a rule, the marginal producer of a given labor-form is also its marginal seller. He is the seller least able and least likely to stand out against the competition of the market. This being true, it follows that the marginal land-form furnishes the conditions which determine the identity of the marginal seller and fixes market values in so far as they are affected upon the seller's side of the market. It should be remembered that the disutility of the marginal land-form determines, primarily and directly, not the selling price of a given labor-form, but the question of whether or not such labor-form shall be produced for sale. It is only secondarily and indirectly that such disutility affects price by gauging the supply. After the labor-form has entered the market, the question of the disutility of its production is of minor importance. The "labor-cost" theory of value as currently stated in this regard is a superficial statement of a half truth. It is true only upon one side—and that the least effective side—of the market. After a labor-form has been produced and is upon the market, the marginal buyer is the primary factor in fixing the price.

With reference to the marginal buyer it may be said

that his indifference does not arise from the fact that he has but little actual desire for the labor-form in question, but from the fact that, compared with all of the things desired by him which he is able to buy, his desire for this particular labor-form is relatively small. If his ability to purchase were doubled, he might quickly purchase it, and his marginal labor-form would be worth approximately one-half as much. Men at the margin do not buy to the limit of their desires, but to the limit of their pocket books. This latter limit is determined by the buyers' success in the acquisition of property or money through industry for use in exchange. This leads us again to consider the fact that all production results from the application of labor-power, directly or indirectly, to land-forms; and that the disutilities of production are greater on some land-forms than on others.

Some buyer, therefore, must acquire his ability to purchase by the use of the poorest land-form necessarily used in his community. Since his disutility is greatest of all, and since the market price of labor-forms such as he produces is the same for all, he necessarily receives the least net value for his exertion, and must be indifferent, so far as effective demand is concerned, to more things in the market than any one else in that market. He must confine his purchases to things which are within the value of what he has to sell. His sales and his purchases as a whole are necessarily economic equivalents. The marginal buyer in normal conditions must be as well circumstanced as the marginal seller, and the probabilities are that he will be no better circumstanced. Both will produce their respec-

tive labor-forms upon the same economic margin, and their products will be economic equivalents.

After a given labor-form has been put upon the market its value is determined by the ability to purchase of a person who has produced another labor-form upon the same economic margin. The indifference of the marginal buyer determines market price, but this indifference is itself determined by the net value which may be acquired upon the economic margin. It is, therefore, to the interest of every producer that the marginal producers of all other labor-forms should occupy the best possible marginal land-forms. For the men at the margin will then produce with the smallest possible disutility and can sell their products at comparatively low prices and still acquire substantial net value. With this net value they will reenter the market as buyers and evince an effective demand for the labor-forms produced by others. And since the marginal producers become the marginal sellers and buyers, respectively, and so fix market prices for all, it follows that every man in normal conditions is directly interested in the welfare of those who produce at the margin.

As has been said, the problem of the producer is the acquisition of net value. Net value lies between two movable points, the point of positive utility and the point of exchange. If net value is to be increased, it must be by the lowering of the former, or by the raising of the latter point. We shall first consider the means by which the point of positive utility may be lowered in production. The disutilities to be reduced are those of matter, time, and space. The utilities by which the reduction may be

accomplished are those of labor-power, capital-forms, and land-forms.

The use of more effective labor-power in the form of skill or ability, or both, lowers the point of positive utility to the user. In competition with others in the open market he has by this means an advantage. This advantage he can enjoy so long as his skill or ability continues to be exceptional. But since all men naturally seek to satisfy their desires with the least exertion, the exercise of exceptional skill or ability upon the part of one man tends to incite all others to the acquirement of like advantages. And those who can not acquire skill or ability of the same kind and degree are moved to seek improvement along some other line. In this way a system of specialized industry develops, each man tending to do that which he can perform with the least disutility or the most effectiveness, knowing that by the exchange of labor-forms, in normal conditions, he can secure in satisforms suited to his needs the full economic equivalent of his product.

The natural outgrowth of specialization in industry in which, at first, each man makes an entire labor-form of a particular kind, as a coat or an ax, is a system of division of labor in which each man makes but a part, and often but a very small part, of the completed labor-form. Thus in divers ways, the special skill of the individual is neutralized and the point of positive utility lowered by his competitors. And inasmuch as the lessening of the disutility of production tends to increase the amount of the product thrown upon the market, the anxiety of the marginal seller is increased and the point of exchange is there-

by lowered. In a free and open market the resulting net value to the individual producer tends to diminish, although the advantages of special skill are always great enough to encourage further individual development. Purchasers are always benefited by increased production brought about by superior skill, and the individual skill of the producer increases his net values without adding to the cost or other disutility of any other person.

Not only does the competition among men engendered by differences of skill and ability incite them to a further development of labor-power, but it leads them to supplement their labor-power by the use of auxiliary capital-forms. All that has been said with respect to the use of exceptional labor-power applies equally well to the use of capital-forms. This is naturally true, inasmuch as capital-forms represent the stored up utility of labor-power. The purpose of acquisition of capital-forms is the same as that of the acquisition of superior personal skill and ability; the results of the use of one and the exertion of the other are the same upon all the parties concerned.

The use of capital-forms in production tends to stimulate invention along all lines; it tends to specialize industry along the line of particular inventions; it tends greatly to the encouragement and development of division of labor; it tends to lower the point of exchange of the labor-forms produced, and tends to diffuse among purchasers or consumers many of the advantages of the use of auxiliary capital-forms in production through the socialization of utility.

If an individual producer makes use of pure capital-

forms to enable him to reduce the disutility of time, the special advantage gained by him is but temporary. In normal conditions all may use capital-forms according to their abilities, and the result is that the price of pure capital as expressed in current interest rates is fixed by the marginal user of pure capital who, for the same reason that he is the marginal buyer of labor-forms, is the man who produces at the margin. In normal conditions, the advantages of the use of capital-forms and of more effective labor-power are diffused by advancement in the industrial arts and by the lowering of prices and rates of interest, so that even the marginal producers share therein. The market prices of labor-forms and of interest rates, in such conditions, tend to a general level which reflects the economic welfare of the marginal pair. The disutilities of all men are reduced to the lowest limit and all utilities tend toward spontaneity.

There can be no production of labor-forms without the use of land-forms. A labor-form is in reality a land-form which has been so changed in form or position, or both, by the expenditure upon it of labor-power that its present distinctive utility is the result of the labor-power thus expended.

The utilities of land-forms for the production of labor-forms differ greatly. In some cases the difference is partly one of fertility, but in all cases there is a difference of site or locality with reference to market which manifests itself in value. The man who, in producing labor-forms, occupies a land-form which, with like fertility, is superior to that occupied by others in location, is enabled to place

his trade-forms upon the market with less disutility than his competitors. The same is true if his land-form, with like location, is superior to that of others in fertility. By selling at the market price, which is the same for all, he possesses an increment of net value which the others do not. The point of disutility is lowered as to him by virtue of the superior utility of his land-form.

In considering the cases of the use of exceptional labor-power and of capital-forms we found that the tendency is to induce all to increase their skill and ability, and to lead to the general acquisition and use of capital-forms. A man simply by acquiring superior skill can not long retain an advantage over his fellows. Others will soon reach his attainments, and if he still further increases his skill, the increased attainments of others will closely follow. All can not be equally skillful or powerful, nor can all acquire and use capital-forms to the same extent or with equal advantage. But a given expenditure of labor-power and a given use of capital-forms will bring the same reward if applied upon land-forms of equal utility.

The law of the market by which all obtain labor-forms at prices fixed by the marginal pair causes the benefits of extra production to be diffused in lower prices among all the buyers of the community. But if given labor-power and capital-forms are applied upon land-forms of unequal utilities, the resulting net values are unequal. And while the advantage of the use of superior land-forms tends to incite a desire in all other persons to acquire and occupy similar land-forms, there faces them the fact of nature that the number of such land-forms is limited, and it is

not within the range of human effort to increase them. Personal skill and ability may be increased until the results are marvelous; capital-forms may be multiplied until both in number and variety they are well nigh countless; but irrespective of improvements—and improvements are *not* land-forms—land-forms can not be created. They are the gift of nature, and any changes or improvements made upon them or out of them by labor-power are labor-forms. This distinction must be clearly seen and constantly kept in mind in all economic discussion.

With increase of population the competition for land-forms, instead of increasing their number, forces into use those of inferior utility, and this increases the value of superior land-forms. As the pressure of population increases the buyer of land-forms becomes, not indifferent, but anxious; while the seller's anxiety changes to indifference. The same cause—increase of population—which in the case of labor-forms tends to produce a general market with equality of net values, tends in the case of land-forms to a one-sided market, with inequality of net values.

It is necessary for us henceforth to distinguish between common and superior labor-power. The former is labor-power exerted with only ordinary skill, energy or ability, and without the use of auxiliary capital-forms. The latter is labor-power exerted with more than ordinary skill, energy or ability, or with the use of auxiliary capital-forms, or, commonly, with both.

We have already seen that auxiliary capital-forms are simply products of labor-power and represent its stored up utility. From another point of view the relation between

labor-power and capital-forms is equally plain. Labor-power includes not only the physical but the mental powers of man when irksomely exerted for the satisfaction of desire. Superiority in the exertion of labor-power is a matter of mind rather than muscle, and this is especially true when the object sought is the satisfaction of desire through the use of capital-forms. It is by the exercise of superior labor-power that capital-forms are thought out and produced in the first instance; by superior labor-power they are saved, collected and made ready for future use, and by superior labor-power they are finally put to use. The production, conservation and use of capital-forms always involve an exercise of personal skill, energy and ability. In so far, therefore, as the use of capital-forms is merely auxiliary to labor-power and does not involve a reduction of the disutilities of time it is merely an exercise of superior labor-power.

Common Labor-Power is labor-power exerted with only ordinary skill, energy or ability, and unattended by the use of capital-forms.

Superior Labor-Power is labor-power exerted with more than ordinary skill, energy or ability, or attended by the use of auxiliary capital-forms, or both.

In ordinary circumstances the producer upon the economic margin exerts common labor-power. Upon the margin, also, is found a dearth, if not an utter absence of capital-forms.

Let us assume that on the marginal land-form of a given community a day's common labor-power will produce a labor-form of the value of one dollar and fifty cents,

and that the disutility of such labor-power is represented by fifty cents. Then the net value of such day's labor-power is one dollar. Upon another and superior land-form in that community labor-power of like disutility will produce two labor-forms of like kind as the first, and hence, of the value in that market of three dollars. Here the net value is two dollars and fifty cents. When the two occupants dispose of their products each pockets his net value, and one acquires two and a half times as much as the other with the same disutility. The principle underlying this illustration is universal in its operation. The market price of any product is fixed by the marginal pair and, in normal conditions, is the same for all sellers in a given market. The producer upon a marginal land-form is the marginal seller, and a producer of some other labor-form upon another marginal land-form is the marginal buyer. In the interchange of the market the net values of all marginal producers are substantially equal; while above the margin the net values of different producers, in normal conditions, vary according to the efficiency of their labor-power, their use of pure capital-forms, and the utilities of their respective land-forms. Through all net values, wheresoever produced, there may be drawn a line, horizontally as it were, which will separate those values which are only equivalent to the marginal return to common labor-power from those which exceed it. The former are marginal and the latter differential net values.

Marginal Net Values are net values which are only equal to the net marginal return to common labor-power.

Differential Net Values are net values which exceed the net marginal return to common labor-power.

Marginal net values are economic equivalents and, so far as they are received, all men fare alike. Beyond these lie differential values of various kinds. The present day struggle in the industrial and commercial worlds is for the attainment of differential net values. Although these values assume many different forms their sources are but five; the use of superior labor-power, the use of capital-forms, the use of superior land-forms, the possession of franchises, and the possession of monopolies. These five sources result respectively in differential net values of five classes: differential labor values, capital values, land values, franchise values, and monopoly values. This classification is of great importance, as upon it is based the conclusions of Economics upon the ultimate question of that science—the question of the distribution of values.

Differential Labor Values are differential net values which distinctively result from the use of superior labor-power.

It must be remembered that, by definition, superior labor-power includes all labor-power when assisted by the use of auxiliary capital-forms. It will be seen, moreover, that all capital values are differential, they being in excess of the marginal return to common labor-power.

For convenience we shall sometimes omit the words "net value" in connection with the term "differential," as the meaning will always readily be understood. Thus the term "labor differential" will be understood to mean differential net value resulting from the use of superior labor-

power; "land differential," differential net value resulting from the use of a superior land-form, etc., thus bringing into use without further explanation the terms "capital differential," "franchise differential" and "monopoly differential," all of these terms referring to differential net values and indicating their sources.

CHAPTER XIII.

OF GROUND RENT AND GROUND VALUE.

The part played by rent in the problems of poverty can scarcely be overestimated. *John A. Hobson.*

It must be noted that the normal marginal land-form of any market is not the least productive land-form in use, but the least productive one *necessarily* used to supply the demand of such market. In normal conditions no one would occupy a poorer land-form than the natural scarcity required. But under a system which encourages the appropriation of land-forms from which there is not present adequate return, but from which great values are expected in the future, it frequently happens that the producers who occupy the poorest land-forms are far beyond the normal economic margin. Some of these occupants expect a greater future return to compensate them for their present lack of adequate net values, and voluntarily go into the wilderness and forestall progress by taking up the best land-forms in advance of the needs of society; but the great majority of the occupants of an artificially depressed economic margin are driven there from the fact that many superior land-forms are held out of use by their owners for speculative purposes, and thus the normal economic margin is not available for use by the normally marginal laborers.

The artificial depression of the economic margin by the

holding of superior land-forms out of present use and occupation necessitates a distinction between the normal economic margin and the artificial margin which usurps its place. The artificial margin is the result of juridical institutions, laws and customs, which sanction the holding of superior land-forms wholly or partially out of use; the normal margin is the margin unaffected by such juridical institutions, laws and customs. We may distinguish between land-forms which are superior only to the normal margin from those which are also superior to an artificially depressed or abnormal margin by designating the former normally superior, and the latter abnormally superior land-forms.

Land values appear under two forms; annual, or rental values; and ground, or selling values. A normally superior land-form acquires an annual rental value because its present products at current prices yield a differential net value. The producer collects this differential when he sells his products. If he is the owner of the land-form as well as its user, he retains this differential value, and the fact that he may do so gives ground or selling value to his land-form. If the producer is a tenant, he pays this differential value over to the land owner as ground rent, and reserves to himself at the most only the net labor and capital differentials of his product. The fact that the owner can collect an annual ground rent from the tenant gives to his land-form a ground or selling value. The differential net value which distinctively results from the use of a superior land-form is reflected in ground value whether the owner is the actual land user or not. In either case he acquires

this net value as *owner* of the land-form and not as *user*.

The amount of ground rent in any case where land-forms are used productively is determined by the excess of the net value which may be secured upon a given land-form by a given expenditure of labor-power and capital-forms over what a like expenditure would produce, if applied upon the economic margin. The tenant gives to his landlord as ground rent substantially that part of the differential value of his products which results from the use of a superior land-form, and thus puts himself upon the same level as the man who produces at the margin. The value which thus accrues to the owner does not result from any expenditure of labor-power or use of capital-forms by such owner, and is in excess of the return which could be secured by the tenant by an equal expenditure of labor-power and capital-forms upon the margin.

The illustrations which we have used all refer to the ground rent of land-forms which are used for the production of labor-forms and the creation of net value. Yet we know that land-forms upon which nothing is produced, but which are used rather for the purposes of the consumption and enjoyment of labor-forms, also yield ground rent. This is a fact entirely overlooked by those who accept and follow the Ricardian formula concerning rent, as that formula is currently stated. An illustration showing that in any country where marginal land-forms yield five dollars' worth of wheat per acre, land-forms yielding ten dollars' worth per acre will bear an acreage rental of five dollars is correct as far as it goes; but it does not explain why an acre of land will bear a ground rent when used for resi-

dence purposes only. In order to explain this phenomenon we must look not to the producer's and seller's, but to the buyer's and consumer's side of the market.

In our discussion of value and cost we learned that value, disvalue, and net value pertain to the seller, and that cost, alternative cost and net salvage pertain to the buyer. The seller seeks net value, and the buyer net salvage. The seller is distinctively a producer, and the buyer as buyer is distinctively a consumer.

In seeking net value the seller, as producer, naturally seeks for those land-forms upon which most can be produced with the least disutility. This gives rise to those differential net values which distinctively accrue upon the more productive land-forms, as our illustrations have shown. In like manner the buyer, as consumer, in seeking a salvage of cost, naturally seeks for those land-forms which are best situated for the purchase at low cost, and best suited for the inexpensive consumption of those labor-forms which he must buy. The importance of living near a market where one may buy to advantage is just as great as living near one where advantageous sales may be made. Net salvage to the buyer is just as truly reflected in ground rents as is net value to the seller. In a city where substantially everything may be bought at the lowest market price and in any desired quantity, residence lots are of much greater value than those in a small village where prices are high and goods scarce. Ground rent may represent net value, net salvage, or both. The selling or ground values of residence lots, like those of productive land-forms, are

simply anticipated net values, or their economic equivalents in net salvage.

The owner of a superior land-form not only annually acquires, in the form of ground rent, the differential net value of all current products which are due to its superiority, but his land-form acquires a ground or selling value by virtue of the fact that its future products will yield differential net values. This ground value, which is expressed in the selling price of the land-form, accrues to the owner as owner and not as user. It accumulates until it equals what is known as so many years' purchase.

If the annual ground rent of a given land-form is \$100, and the current rate of interest on long time and secure investments is 5 per cent, the selling price of the land-form in present conditions is substantially 20 years' purchase, or the aggregate sum of 20 years' ground rent. Stated in another way, when interest is 5 per cent, the payment in advance of a sum equal to 20 years' ground rent will purchase the property. This is true because the seller seeks a price which, if invested in secure long time commercial paper at the current rate of interest, will procure him an annual income equal to the annual rental value of the land-form sold; while the buyer will not pay a price upon which the annual ground rent will not pay the current rate of interest. When current interest is 4 per cent a sum equal to 25 years' ground rent upon a given land-form, if put at interest, will produce an income equal to the annual ground rent of such land-form. When current interest is 5 per cent a sum equal to 20 years' ground rent will suffice, the number of years' ground rent, or num-

ber of years' purchase, being found by dividing 100 by the number expressing the current rate of interest. Where land-forms have no strictly speculative value, this rule is sufficiently accurate for practical business, and is commonly acted upon, especially in England; but where speculation in land-forms is in vogue, due allowance must be made. The selling price of land-forms represents their ground value.

Ground Rent is annual land value.

We are not yet prepared to define ground value, but quantitatively considered it is the present worth of anticipated ground rent.

Present Worth is a phrase used in speaking of a debt before it is due, and is the sum which, at the prevailing rate of interest, will amount to that debt when it is due. In a commercial sense, the selling price of a land-form is future ground rent capitalized at the current rate of interest.

Ground values not only adhere to land-forms which are actually used for the purposes of consumption as well as for production, but also to land-forms of which no present use is made at all. This is strikingly illustrated by the cases of vacant lots and lands. In the "South Side" business district in the City of Chicago there were in 1894 vacant lots to the amount of ten acres and of the aggregate ground value of \$8,000,000.* This and vastly more ground value has accrued in that city notwithstanding the fact that neither owner nor tenant has expended either

* Eighth Biennial Report Illinois Bureau of Labor Statistics.

labor-power or capital-forms upon the lots themselves. After due allowance is made for all moneys spent by the owners for improvements in the streets adjacent thereto, these lots have acquired a rental value of many thousands of dollars per year as bare land-forms. The same phenomenon, upon a smaller scale as regards values, may sometimes be seen in country districts. In some places farm lands have been held out of use until they have become of comparatively great value.

Ground rent is shown by the foregoing illustrations to adhere to land-forms as a result of the distinctive net values and net salvages actually or potentially produced or consumed thereon. These net values and salvages are primarily involved in the prices of products, but are there indistinguishable and unmeasurable. In the end, however, they all appear as land values, and accrue solely to the owners of the superior land-forms as land owners and not as land users. Land values absorb all differential values which result from the use of superior land-forms. Such differential values can be distinctively recognized and measured only when reflected in the value of the superior land-forms themselves.

The importance of thoroughly understanding the full import of the marginal return, differential value, ground rent and ground value, as we have defined these terms, is so great that we will pass in review their distinctive features. This will carry us back to a fundamental fact of Economics, viz., that all production is the result of the application of labor-power to land-forms. Labor-power may be assisted to great advantage by auxiliary capital-

forms in overcoming the resistance of matter, and pure capital-forms may be used to overcome the irksomeness of waiting. But capital-forms are themselves the results of labor-power expended upon land-forms; as between the two, labor-power is the creator, the capital-form is the creature. In the process of production labor-power is usually the principal, capital-form usually the assistant. It is only when the disutility of time is to be overcome that capital-forms have a distinctive function and collectively rise to the dignity of a coördinate factor in production. The efficiency of labor-power, whether aided by capital-forms or not, is governed by the utility of the land-form upon which it is expended.

Every market has tributary to it a certain number of land-forms which must necessarily be used in order to supply the demands of such market. Of these necessary land-forms some are least productive of all. The men who occupy these least productive land-forms receive a given return for the disutility which they undergo. Men who occupy land-forms of greater utility receive a greater return for a like disutility. If we undertake to compare the differences of return for like disutilities throughout the territory of the market, we can only do so by taking the upper limit of the marginal return as the point from which to measure, and the marginal return itself as the basis, but not the unit of comparison. The unit we shall develop later.

Ground rent, like that differential net value which it reflects, begins at the upper limit of the marginal return. It extends upward in varying degrees and manifests itself in

the annual value of the particular land-form to which it attaches. This annual value is determined by the excess of the net value which may be acquired on the land-form in question over that which may, with like disutility, be acquired upon the economic margin. The landlord will receive no less as annual rent because of the one-sided competition always existing between land user and land owner in present conditions. The tenant will give no more because he can occupy the margin rent free. It must be remembered that in this market the competition is not for land-forms merely, for of these, such as they are, there is an abundance for all. The competition is for land-forms which are tributary to some general market. Of these the supply is always limited and the demand ever increasing. In the competition for land-forms, however, tenants will give no more than the excess of net value over the marginal return; that is, no more than the land differential, because they can occupy the economic margin and acquire the marginal return without the payment of rent.

The fact that ground rent is but a reflection of differential net values of product has an important bearing upon a much mooted and generally misunderstood question of Economics. This is the question of the relation of ground rent to the prices of labor-forms produced or consumed upon the particular land-forms upon which the ground rent accrues. It is sometimes said that "ground rent does not enter into price," or that "ground rent is not an element of price." From these statements it is easy to glide into the totally unrelated and erroneous statement that

“ground rent is not paid out of price,” price in each case referring to market price of products.

The real solution of the matter is this: The prices of all labor-forms are fixed by the marginal pair and, in ordinary circumstances, are the same for all producers. In ordinary circumstances, also, the marginal seller receives *some* net value—he receives the marginal return. The occupiers of superior land-forms receive the same price, but because the superiority of their land-forms enables them to produce with less disutility, their net values are greater than the marginal return by the amount of the land differential. This differential value is reflected in ground rents. The price of the products existed before the ground rent accrued, and instead of ground rent affecting price, it is affected by price. The higher the price of products the more rent; the lower this price the less rent. Ground rent does not enter into price, but price does enter into ground rent and affects it at its upper limit.

A farmer who pays high ground rent gets no more for his grain on that account. But if prices of grain are high, he will pay more rent. And as every one knows from experience, the prices of goods are not higher in the “down town” districts of a great city where ground rents are enormous, but on the other hand, are lower than in the outlying districts where rents are comparatively low. From these facts it will be seen that the first two statements above quoted are true, but are liable to be misunderstood, while the third is palpably untrue. The only means which the ordinary farmer has of paying ground rent is out of the price of his products; while the business

man, in order to succeed, must make his prices cover all expenses, including ground rent. The merchant, however, does not raise his prices because his ground rent is high, but pays high ground rent because his net values at current prices are great. Ground rent, from the point of view of market price of products, is a result and not a cause.

We have already noted the fact that the owner of a land-form not only receives the current differential net value which is reflected in ground rents, but discounts future differential values in the selling price or ground value of his land-form. If he rents to another, he is paid a current differential value annually by his tenant, and if he sells, he is paid the present worth of anticipated future differential values by the buyer of his land-form.

Although all land differentials originally inure to the owners of the land-forms in any community, a part of these values are annually taken by the State in taxation. All taxes levied wholly upon land values, irrespective of the values of improvements, fall upon the owner of the land-form as owner, and are paid out of current ground rents. It is impossible that the tax upon the value of a given land-form could equal the entire ground rent every year. For if it did, it would require all the differential value of product to pay the tax, and the owner would be no better off than if he occupied or owned a land-form upon the economic margin. Hence his land-form would have no selling value whatever, and without a selling or market value there could be no basis for taxation. By regularly taking all the ground rent in taxation (if this were

possible) the State would destroy all ground value; for ground value is simply future rental value anticipated by the owner. In order for land-forms to have any selling or ground values some part of the ground rent must systematically be left to the owner after payment of taxes; this amount left to the owner may not be less than a sum equal to the true discount of the annual ground rent at the current rate of interest.

Suppose the annual ground rent of a given land-form to be \$105, the current rate of interest 5 per cent, and that the annual tax imposed by law is regularly to be 100 per cent of the selling price or ground value of all land-forms. A purchaser will invest \$100 in the given land-form, and its owner can secure no more. The ground value is then less than the annual ground rent; the former is the present worth of the latter. The purchaser by paying \$100 for the land-form can annually thereafter collect \$105 from the tenant, turn \$100 over to the State as taxes, and retain \$5 net ground rent. This is equivalent to interest at 5 per cent upon \$100, the amount of the investment; and ordinarily he can turn this investment into cash at any time by a sale of the land-form for the same price he paid.

From this illustration we see that while the State cannot take 100 per cent of the rental value—ground rent—of a land-form, it can take 100 per cent of its selling or ground value every year. And we also see that if taxes upon land values, irrespective of improvements, were increased from present rates to 100 per cent of ground value, the selling price of land-forms would fall from the anticipated aggregate of about 20 years' ground rent to the

present worth of one year's ground rent, if the current rate of interest is 5 per cent per annum.

The foregoing illustration shows what would be the relation between ground values and ground rents, if all the former were annually appropriated to public uses. An illustration already used in this chapter shows the relation between ground values and ground rents in present conditions. Each shows that while ground rent has an origin entirely distinct from that of economic interest and is independent of it, ground value is directly governed in all cases by the current rate of interest. The ground rent of a given land-form might remain the same, if a change were made from present conditions to a condition of the full socialization of ground values, and the current rate of interest might also remain the same. But assuming the ground rent to be \$105, and the current rate of interest to be 5 per cent, the ground value of such a land-form would decrease from about \$2,100 to about \$100. In each case the ground value represents a sum of money which, put at interest at the current rate, yields the economic equivalent of the net ground rent.

A man having a certain sum of money for investment, either in present conditions or in conditions attending the complete socialization of ground values (land tenure otherwise remaining substantially the same), has a choice of putting it at interest or investing it in land-forms. In case the latter investment is chosen he collects all the ground rent, and whether he keeps it substantially all, as in present conditions, or turns substantially 95 per cent of it over to the State in payment of taxes, he receives the cur-

rent rate of interest on his investment and, as a rule, nothing more. If investments in land-forms yield more than the return to capital-forms at the current rate of interest, money is withdrawn from other forms of investment until the equilibrium of current returns is restored, and *vice versa*.

From these illustrations it appears that in so far as ground rent is equivalent only to the current return of money put at interest it is not, strictly speaking, a differential value. Above this return it is distinctively a differential value and manifests itself in the form of ground value whether it is absorbed by the State or is allowed to accumulate to a given number of years' purchase in private hands. We are now prepared to define ground value, not quantitatively but qualitatively.

Ground Value is differential ground rent, capitalized at the current rate of interest.

The absorption of all ground rent into the public treasury by means of taxation simply involves the socialization of all differential ground rents.

The fact that ground rent is capitalized in form does not convert it into capital. It simply gives it one of the characteristics of capital in its outward appearance; fundamentally they are as distinct as before.

CHAPTER XIV.

OF LAND TENURE.

The expropriation of the mass of the people from the soil forms the basis of the capitalist mode of production.

Karl Marx.

A long habit of not thinking a thing *wrong* gives it a superficial appearance of being *right*, and raises at first a formidable outcry in defence of custom. *Thomas Paine.*

We have already noted the close relationship between labor-forms and capital-forms, and consequently, between labor values and capital values. Except in so far as they are used to overcome the disutility of time, capital-forms simply represent the stored up utility of labor-power; and even pure capital-forms owe their very existence to the exertion of labor-power. Labor-forms and capital-forms have a common origin. To labor-power auxiliary capital-forms serve as supplements, and pure capital-forms as complements. In normal conditions labor values and capital values are always closely related, are never antagonistic, and tend to rise and fall together. Increase of population and what we call material progress, in normal conditions, both tend to lower all labor values and all capital values within a given territory.

On the other hand, land-forms exist independently of the exertion of labor-power or the existence of capital-forms. Their origin is in nature alone. No man, either by taking thought or taking action, can originally create

the smallest land-form. In normal conditions land values tend to increase as labor values and capital values tend to fall.

With increase of population and material progress in a given territory the demand for superior land-forms increases, while the supply is limited by nature; consequently the values of superior land-forms in such territory tend to rise, while labor values and capital values tend to fall.

We now come to a further point of differentiation between labor values and capital values upon the one hand, and land values upon the other.

Every exchange in the market presupposes a right of exclusive possession to the thing sold, which right is transferred from the seller to the buyer and forms the gist of the transaction. Neither the laws of the market nor the laws of the State recognize as valid a sale of property or of an interest therein to which the seller has not the right of possession as against the world to the extent of the property or interest transferred. It is commonly recognized among all commercial peoples that the right of exclusive possession to all labor-forms and capital-forms is based upon their production. It is assumed in all cases that the rightful possessor of such property either produced the same or derived his title, directly or indirectly, through or from some one who did.

With land-forms this is not true. Not having been produced by man, no title can be based upon the ground of production. In the absence of organized government the original exclusive possession of particular land-forms can

only be obtained and maintained by individual force. It can not originally be acquired by purchase, because no one has a recognized right to sell. When organized government appears, however primitive its form, it at once assumes a sovereignty over all land-forms within its jurisdiction, and thereafter all land-forms are "held from the crown," and some form of land holding is established and maintained by law. The right to the exclusive possession of particular land-forms in any country having an established government depends upon the collective power of the State in the enforcement of a juridical or legal sanction known as land tenure.

Land Tenure is the juridical or legal sanction by which particular land-forms are held, used, or controlled.

Four facts of economic importance grow out of the facts hitherto discussed in this chapter. The first is that organized government—the State—bears a relation to land-forms, and consequently to land values, different from its relation to labor-forms and capital-forms, and consequently to labor values and capital values. To the title of labor-forms and capital-forms its relation is simply that of protector; toward them it exercises what is known in law as its police power; while of the title to land-forms it is the creator as well as protector. The State determines what land-forms shall be devoted to private, and what to public uses, and all private titles relate back to the government.

Under an orderly government the matter of the exclusive possession of particular land-forms can not be left to individual strife; nor can it be settled by the compe-

tition of the market alone, for originally no man can come into the market with any better right to convey than that possessed by every other man therein. In this condition the State intervenes, assumes title to all land-forms, and parcels them out under such system of land tenure as it sees fit to adopt. In doing so it assumes, directly or indirectly, to represent the interests of all its citizens in and to the land-forms within its borders, and by giving title to one man, to cut off the rights of all other men to the particular land-form conveyed. No State has ever assumed the right or the power to act in this manner toward labor-forms or capital-forms; for although the products of labor-power may be arbitrarily diverted by law from the actual producer to another, either wholly, as in slavery, or in part, through the various forms of monopoly, yet the law in such cases looks upon the beneficiary as the producer, and the title to the property does not at any time vest in the State or issue directly therefrom. The importance of this distinction will more fully appear when we discuss the matter of the socialization of values.

The second fact to which we have referred is this: All general benefits derived from good government tend to raise the values of superior land-forms—including franchise values based upon land grants—and to lower all other values. In any country where property rights are well protected, where personal safety is assured, and where government is economically administered, production is encouraged, markets are well supplied, and current prices fall. In this way every man, through the interchange of the market, may supply his individual needs with the least

exertion. But if property and persons are insecure, if lawlessness prevails, and an extravagant government wastes its revenues, production is discouraged, markets are depleted, and current prices rise. On the other hand, when production is encouraged by good government, competition for land-forms is increased and land values rise; and when production is discouraged by bad government the competition for land-forms decreases and land values fall.

Let us suppose the case of two cities equally well located as to natural advantages and as to communication with the outside world. Up to a given time both have been equally prosperous. Suppose now that the one increases the efficiency of its police department, establishes superior fire protection, develops its public school system, and so attracts to itself an increase of population of a thrifty and temperate character who build stores, factories and churches, and beautify their premises. The stores will be filled with merchandise, merchants will compete with one another for the making of sales, and low prices will result. But the merchants will also compete for the most advantageous locations, and the new comers will compete with one another and with the older residents for sites for homes, stores and factories. The price of land-forms will increase from year to year and upon the most valuable corner in the city a department store will lower the prices of all staple articles.

Suppose that in the other city the police department becomes demoralized, the fire protection inadequate and uncertain, and the public school system inefficient. In such circumstances the growth of the city will be checked,

merchants will carry small stocks of goods at increased risks, prices will be high at the stores, and land-forms will decrease in value. All of the advantages of good government in any country are reflected in increased land values.

The third fact to which we have alluded is this: All natural advantages of climate, soil, scenery, water ways, forests, mines, coal beds, petroleum and gas deposits, etc., are reflected in land values. Examples illustrating this fact might be cited almost indefinitely, but one will suffice. Suppose that in a large city, upon land belonging to the municipality, the public authorities happen to strike a deposit of natural gas sufficient to supply the entire city for fuel and lighting purposes. Suppose further that the city pipes this gas through all of its streets and furnishes it to consumers at an actual cost of twenty-five cents, whereas the citizens have been paying one dollar and twenty-five cents per thousand feet to a private company for artificial gas. What will be the effect? Rents will immediately rise and absorb this advantage upon all tenement property and the selling values of all land-forms will rise accordingly. Land users, as users, will be financially little or no better off than before, while land owners, as owners, whether they are the real occupiers of their respective land-forms or not, will reap substantially all the financial benefits, either in increased ground rents or in greater ground values, or both.

The fourth fact in question is that all improvements in the matter of highways and other transportation facilities increase the value of all adjacent and tributary land-

forms. This is a fact which may easily be verified by any one who will look around him. A railroad can not be built through any territory having present need of it without increasing the ground values of the adjacent and tributary land-forms more than the economic equivalent of the actual cost of the road. After the road is in operation the increase in ground rents of adjacent and tributary land-forms will more than equal the annual cost of operation. The same is true of a street railway in any city. The better the needed transportation in any community the higher the land values in the form of both ground rents and ground values. The gain to the sellers of all labor-forms produced locally is absorbed in increased rental and ground values, while all labor-forms brought to market from the outside bear a lower price because of cheaper transportation charges. All labor values tend to fall within the territory affected by the improved transportation service. The fact that labor-forms can be cheaply purchased in any given market is reflected in local land values, especially in the values of city and village lots for residence purposes, as was shown in the preceding chapter.

Instances of the marked effect of railroad building upon land values have been exemplified in almost every community in the United States. In former years it was quite the custom for the people of a community to vote an issue of bonds sufficient to build and equip, at actual cost, a proposed railroad through such community. Inasmuch as these people were to pay the regular rates for freight and passenger service upon the completion of the road, they

could only hope to recoup themselves for the increased taxes necessary to pay the bonds by an increase in the values of their labor-forms which, in turn, would be reflected in the increased values of their land-forms. The mere announcement that a railroad is to be constructed through a given territory causes a speculative increase in land values throughout such territory. So great has been the inflation of land values because of the construction or proposed construction of railroads that roads have been built for which there was no present need, and through territory which could not possibly supply traffic to pay current expenses. In other cases bonds have been voted and even issued in payment of bonuses for the construction of railroads which never existed, nor were intended to exist, except upon paper.

It must be perceived and kept in mind that when increased labor-power is exerted, or when more capital-forms are expended upon a superior land-form, the effect is not all manifested in the increase of labor, or capital differentials, as the case may be. A part of the increase in net value is always absorbed by land values. Although the additional labor-power or capital-forms may increase the total net value upon the superior land-form 50 per cent, yet if the same increase applied upon the economic margin would result in an increase in net value of only 10 per cent, then 10 per cent is all that will go to the producer as producer upon the superior land-form. The other 40 per cent will manifest itself as land value, and will go to the owner of the land as land owner, whether he be the land user or not. If the relation of landlord and tenant exists,

this division of the increase will immediately appear in an increase of ground rent as well as ground value. If the owner occupies the superior land-form himself, the result will be manifested only in the increased ground value of his land-form. If a tenant be the user of the land-form under a long time lease at a fixed rent, the effect will seemingly be modified, but in reality such a tenant is owner to the extent of his term. He can sell his leasehold interest at a premium or sublet at a profit. In case of a tenancy from year to year, the tenant may acquire and retain approximately the entire increase for the current year, because of the terms of his lease already made; but taken one year with another, an increase in ground rent will absorb substantially all the increase acquired over what a like exertion or expenditure would produce at the margin.

Another peculiarity of land value is that in any given case it is wholly independent of the labor-power of any particular person, be he owner or otherwise. Indeed, it is practically independent of the existence of any particular person. A vacant land-form in a great city in present conditions may be owned by a man who never saw it, never performed a stroke of productive labor in his life, and who lives on the other side of the globe. The owner may die and his heirs be unknown, but the land value is not thereby affected. The land-form may lie idle for another fifty years, and at the end of that time have double its present value. The growth of the city, the presence and labor of every man, woman and child within its limits, has contributed to this value, while the act of its owner, known or unknown, in leaving it idle has been a detriment to

surrounding property and, perhaps, even to the city itself.

It is not so with labor-forms. Some man, or some particular men, must originally exert labor-power in order that labor-forms may exist, and when produced they require constant use, care or supervision to maintain their value at all. The larger the community, the larger the relative supply of such labor-forms is likely to be, and the more likely they are to decrease in value aside from natural deterioration.

Again, land-forms which are held out of use in a progressive community not only increase in value themselves, but the fact that they are unused adds to the value of all still superior land-forms. Suppose that in any given community there are certain land-forms which are capable of yielding, with given disutility of cultivation, \$10 per acre; certain others, \$8, \$6, \$4 and \$2, respectively. Suppose, further, that at any given time all the \$10, \$8, and \$6 land-forms are occupied under present private tenure, the \$6 forms being upon the normal economic margin. Then the \$10 land-forms will yield a differential value of product of \$4, and the \$8 forms of \$2 per acre.

If, now, the growth of population requires the occupancy and use of \$4 land-forms, the economic margin falls to these; the \$6 forms yield a differential value of \$2; and the differential values of the higher forms are increased to \$6 and \$4, respectively. Let us assume, however, that under the existing land tenure the \$4 land-forms have been bought up for speculative purposes, and are held out of use for a rise in the land market. Then production must descend at once to the \$2 land-forms, and the dif-

ferential values of the superior land-forms rise \$2 per acre more than if the \$4 land-forms were open to use. Thus an abnormal condition of land tenure has increased the land differentials of the best land-forms by the arbitrary act of the owner of the \$4 land-forms in holding these out of use. This is the inevitable result of the holding out of use of land-forms above the economic margin. The values of all still superior land-forms become not merely differential, but, to a greater or less degree, monopoly values.

The effect of the increase of land values through the lowering of the economic margin from any cause is more far reaching than might at first sight appear. It must be remembered that land values go to the land owner as owner, and not as land user, or producer. This leaves to the actual producer upon a given land-form, at the most, only the net labor values and capital values available thereon. If the producer is a tenant and exerts only common labor-power, he receives but the equivalent of the marginal return; for the only differential value is that arising from the superiority of the land-form, and that is taken from him in the form of ground rent. If now the tenant, through the acquirement of special skill or the use of capital-forms, or both, increases the value of his product 10 per cent, there arises a new differential value. The tenant, however, does not retain all of this increase one year with another. The land owner, at the time of their next bargaining, increases the ground rent so as to absorb all of the increase for the next year, except what a like additional expenditure of labor and capital will produce,

if applied upon the economic margin. If 2 per cent is all the increase that will accrue upon the margin, that is all that the tenant can retain. Nor is this all. From pressure of population, the withholding of land-forms from use, or for some other reason, the marginal producer may be compelled to occupy a land-form which is 10 per cent less productive than the margin formerly occupied. In such case the land-form which was formerly upon the margin now bears a rent, and the rent of all superior land-forms, including that occupied by the tenant in question, is increased 10 per cent. The tenant is, therefore, no better off than before. What he gains in labor and capital differentials he loses in the payment of increased ground rent.

Again, a man may be so circumstanced at a given time that he acquires a certain net return after the payment of ground rent. Within a certain space of time thereafter, say five years, he acquires additional skill and uses additional capital-forms so that his increased labor and capital differentials net him 5 per cent of his former return. But it may be that in these five years the economic margin has been artificially depressed so that his ground rent has increased 10 per cent of his former net return, whereas his net labor and capital differentials together have increased but 5 per cent of such return. In such case, notwithstanding the man's diligence, his last state is worse than the first; the increase in ground rent has absorbed twice as much net value as his additional skill and capital-forms have realized. While it is true that he is still better off than if he had not acquired skill and accumulated the capital-forms, it is also true that, if the economic margin had not

been depressed, he would have retained his former return and he, instead of the land owner, would have acquired and retained the 5 per cent additional differential net value.

The user of land-forms, as user, is vitally interested in the welfare of the man who produces labor-forms of the same kind upon the economic margin.

CHAPTER XV.

OF GROUND RENT, WAGES, AND INTEREST.

Let us, then, seek the true laws of the distribution of the produce of labor into wages, rent and interest. The proof that we have found them will be in their correlation—that they meet, and relate, and mutually bound each other.

Henry George.

People who have at home some kind of property to apply their labor to, will not sell their labor for wages that do not afford them a better diet than potatoes and maize.

Laing's Notes of a Traveler.

We have seen that when use is made of a land-form which yields more than the marginal return, ground rent emerges and manifests itself in an annual value which, in present conditions, may be collected from a tenant, or may be enjoyed by the owner as a differential value, if he uses the land-form. In either case future ground rent is anticipated and appears as the ground value of the land-form; and in any event, the starting point in the study of the phenomenon of ground rent is the upper limit of the marginal return.

In a new country where but few land-forms are utilized, and these are of substantially equal utility, no one receives anything in excess of the marginal return, and land-forms neither bear ground rent nor have ground value. But as soon as it becomes necessary for some settler to occupy and use a land-form of inferior quality or

position, or both, a distinction arises, and his annual product becomes the marginal return. All the superior land-forms now bear ground rent. But as the community grows, not only do other and still inferior land-forms necessarily come into use, but the land-forms of the original settlement cease to be of equal utility, and differences of ground rent arise among them. The general store, the blacksmith shop, the railroad station, and the post-office appear, and nearness to these becomes a principal element of land value in that community. As the community grows, the difference in ground rents becomes greater and greater, and the question of location rather than of fertility becomes of greater and greater importance. But in any community, however great, that value which lies back of the entire question of ground rent is the marginal return. When a farm tenant gives half his crop for the exclusive use of a given land-form for one year, it is because he can do so and, all things considered, still retain as his own an amount equal to the marginal return.

We have so far considered men as exerting their labor-power for their own direct benefit or, in other words, as employing their own labor. All men do not do this, however. Instead of producing some labor-form for exchange, many men sell their labor-power to others, or as it is commonly expressed, work for wages, for a salary, or for a commission. In all such cases the amount of wages, salary or commission—we shall use “wages” as an inclusive term—in normal conditions is governed by the marginal return. An employer of labor offers as compensation the lowest sum which he can induce another to accept. But in ordi-

nary circumstances no one will work for wages which are less than the marginal return to self-employed labor of the same grade. On the other hand, if wages should become perceptibly greater than such marginal return, men upon the economic margin would cease self-employment and seek service with others. The marginal return to self-employed labor is the determiner of wages. The solution of the wages question is contained in this simple statement. It is not our present purpose, however, to attempt to solve, in detail, this and related questions, but to furnish data for their solution.

When a man has stored up the utility of his labor-power in capital-forms, he may seek advantage of this stored up utility by using such capital-forms himself, or by selling them to another, either outright, or for a limited time. If he sells them outright, he receives his pay in market price, which is determined by the marginal pair, and these, as we have seen, are the occupiers of the economic margin, and receive for their labor the marginal return; if he sells them for a limited time, he receives his return in the form of interest. The amount of this return is subject to the universal law of the market. As a capitalist he seeks as great a return as he can induce any other person to give; the borrower, on the other hand, gives as little as possible. The method of the market is then precisely the same as if the capital-forms were for sale outright. The price—the rate of interest—is fixed by the marginal pair. The marginal buyer, or borrower of pure capital, tends to be the user of the economic margin.

Upon the margin the opportunities for the reduction

of the disutilities of time are less than upon superior land-forms, and the return for the use of capital-forms is there least of all. If the bidding of the marginal producer is necessary to exhaust the supply of pure capital offered, his bid fixes the rate of interest for the whole market, and all borrowers take advantage of this rate. If the supply of pure capital is so small that the lowest necessary borrower is found before the marginal producer is reached, still it is this lowest borrower, whose demand is necessary to exhaust the supply of such capital, that fixes the rate of interest for the entire market. He occupies the marginal land-form among those land-forms upon which borrowed capital is used.

Whether used to assist labor-power in overcoming the disutilities of matter, or directly in overcoming the disutilities of time, the return to capital-forms is governed by the same laws as the return to labor-power. Like labor-power, the amount and efficiency of capital-forms tends to increase with increase of population and with progress in the industrial arts. In a new community nearly all production is necessarily directed toward acquisition of satisfaction-forms. But as the community grows, more and more labor-forms are diverted for use as capital-forms. While the community is new and capital-forms scarce, the marginal producer occupies one of the most advantageous land-forms and can pay as high rate of interest as any one in the community. The little pure capital, therefore, that is available will bear a high rate of interest.

When the community has reached that stage of growth in which all land-forms available are occupied, the mar-

ginal producer occupies the poorest land-forms of all and pure capital used by him will give a comparatively small return. In the meantime the amount of pure capital for investment has increased in proportion to the growth of the community, and the marginal producer must use such capital in order to exhaust the supply. In such circumstances he becomes the marginal bidder for pure capital, and his bid fixes the rate of interest. The return to pure capital in the hands of the marginal user is the determiner of the rate of interest for all such capital. This marginal return is governed by the return to pure capital which can be acquired upon the land-form occupied by such marginal user. So that whether we consider the question of ground rent, of wages, or of interest, we are carried back to the return of labor-power and capital-forms upon the land-forms at the economic margin.

The nature and laws of wages, interest, and ground rent may be epitomized in the following descriptive statements:

Wages in any given case are determined by the marginal return open to similar labor-power.

Interest in any given case is determined by the marginal return open to pure capital.

Ground rent in any case is determined by the excess of net value or net salvage acquired upon the land-form in question over that acquired with like disutility upon the marginal land-form put to similar uses.

The law of wages which we have formulated may be applied to the compensation received for any exertion of labor-power, physical or mental. It does not imply that the compensation of a skilled physician, the superintendent

of a large business, or of a college professor, is determined by the return which would be open to that particular physician, superintendent, or professor, if he were compelled to become a day laborer upon a marginal land-form. This is not true. There is no room for the exertion of the distinctive labor-power of any of these men upon the marginal land-form used for the raising of potatoes, corn or wheat. But there is somewhere in the society in which they labor an opportunity which is the least remunerative of all those open to men of similar skill and ability, and it is the return resulting from this marginal opportunity which constitutes the marginal return for their respective professions. The return to a professional man is greater, however, in a community where the artisan is well paid than where he is poorly paid; and the artisan fares better where the wages of common labor are high than where they are low. So that although wages in any given case are directly determined by the marginal return open to *similar* labor-power, yet, in the last analysis, the prosperity of all men not the beneficiaries of artificial conditions is based upon the return acquired by the man who exerts common labor-power at the economic margin.

Not only has the nature and origin of the economic basis of interest furnished the basis of interminable disputes, but the very existence of any such economic basis has been denied. Boehm-Bawerk in an exhaustive treatise of two volumes classifies and criticises the leading economic writers with reference to eleven different theories of capital and five of interest, and then expounds a twelfth theory of capital and a sixth theory of interest

as essentially his own. Notwithstanding all these theories of interest, we have been obliged to work out another in conformity with our definitions and doctrines of utility, disutility, value and cost, in order accurately to classify all the phenomena of the normal market, and to bring Economics into harmony with related sciences.

By the assistance of auxiliary capital, labor-power acquires more utility in the same time; by the use of pure capital an additional utility is acquired and enjoyed now rather than at some future time. The utility of auxiliary capital does not differ from that of labor-power in kind, but simply adds to its effectiveness; while the utility of pure capital is essentially different in kind and accomplishes an end which is impossible to labor-power alone. It overcomes the disutility of time by rendering unnecessary, or by diminishing, the irksomeness of waiting—that irksomeness which Milton aptly recognized when he said:

“They also serve who only stand and wait.”

Interest does not arise from any productivity of capital, either natural or artificial; nor is it the reward of abstinence upon the part of the lender; nor simply an agio or premium arising from the exchange of present for future goods (Boehm-Bawerk); nor is it that part of the product which results from the use of capital-forms in production as is commonly believed. It is the net value which arises in production from the utility of capital-forms in overcoming the disutility of time. Were it not for this distinctive disutility, the utility of pure capital-forms would

not arise, the phenomenon of economic interest would not exist.

Interest, in the first instance, applies only to the use of pure capital. But since all values are resolvable into money, and since all capital-forms are interchangeable in the market and may be used interchangeably as auxiliary or pure capital in production, commercial interest is paid upon all borrowed capital regardless of the use to which it is put. Its price—the rate of interest—is determined by the distinctive utility of capital-forms to the marginal user, and this is their utility to him as pure capital. After money is borrowed it may be invested in pure capital, auxiliary capital, or not used at all. The result, so far as commercial or legal interest is concerned, is the same—it must be paid. But only when borrowed money is invested in pure capital does any economic interest arise out of which commercial interest can be paid without loss to the borrower. This accounts for the fact that so many commercial enterprises based upon borrowed capital fail. In order to succeed it is not enough that such capital is used to assist labor-power in changing the form and position of material substances. All that capital-forms are worth for this purpose is covered by their price when, in the form of machinery, etc., they are bought in the open market. When bought with borrowed money, capital-forms must be used to overcome the disutility of time as well as of matter. Their utility for the former purpose is paid for in interest; for the latter, in price. Unless put to both uses borrowed capital must necessarily result in loss, and the commercial interest must be paid, if at all,

from other earnings. It is for this reason that those omnisocialists are substantially right who say that the average man can not pay interest and survive in present business conditions. But present conditions are influenced by juridical laws, and so are not within the province of our immediate inquiry.

It ought to be perfectly clear from what has been said that what is commonly denominated *rent* is usually made up of both ground rent and interest. Ground rent is paid for the use of *bare land-forms*, irrespective of any and all improvements thereon. All buildings or other improvements which have been added to the original land-form by labor-power are labor-forms, and when used as capital-forms their distinctive return is interest and not ground rent. Unless this distinction is clearly perceived and constantly kept in mind, no final conclusions worthy to be called scientific are possible. In the study of Economics we must habitually think and speak in the terms of the science.

CHAPTER XVI.

OF THE ECONOMIC STANDARD OF VALUE.

A man's labor for a day is a better standard of value than a measure of any produce, because no produce ever maintains a consistent rate of productibility. *John Ruskin.*

Labour, therefore, is the only universal, as well as the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and at all places. *Adam Smith.*

The primary disutilities of the economic world are the same as those of the physical world—the disutilities of matter, time and space. Aside from these disutilities of which they treat in common, Physics treats of energy and its effects; and Economics, of value and its causes. The physicist looks upon energy as initiative, while the economist views value as resultant. Aside, however, from the variance made necessary by the difference in the point of view, the method of the economist is similar to that of the physicist.

The physicists have need of a universal standard of energy by means of which standard all measurable forces may be compared. They have secured such a standard in the only possible way—by making it contain a unit of each disutility. In physics the disutility of matter, as a resistance to energy, is represented by its resistance to the force of gravity, that is, by weight; the disutility of space, by distance; and the disutility of time, by time itself. For

many purposes of measurement a unit of weight only is required; for other measurements a unit of distance or of time will suffice; in still other cases a unit including weight and distance, but not time, is a convenience—as the foot pound. But weight, distance and time are all requisite for a universal standard for the measurement of energy. This universal or absolute standard consists of an energy which will move a given mass a given distance against the force of gravity in a given time. More specifically, it is a force which will move one pound against the force of gravity one foot in one second, and is known as the "foot pound second" unit of energy.

In a similar way any universal standard for measurement of value must contain a unit of each disutility. In Economics the disutility of matter is represented by the labor-power necessary to overcome it; the disutility of space, by the location and area of particular land-forms; and the disutility of time, by time itself. As value is a resultant of economic conditions and not a force, so its standard of measurement must be a resultant and not a force. The standard unit of value must be the resultant of a unit of labor-power exerted upon a unitary or marginal land-form for a unit of time. It must be a "labor time land" unit of value; it can then furnish the basis of measurement for any and all normal values whether distinctively labor values, capital values, or land values.

There is this characteristic difference between the physical and the economic standards. In the former, the elementary units of matter, time and space may all be definitely fixed, and the resultant standard is therefore

constant. *One pound* (at the level of the sea) is the same yesterday, to-day and to-morrow. *One foot* is the same at all times and in all places. *One second* is a fixed period of duration everywhere. Having a fixed standard constant in all its elemental units, Physics ranks among the exact sciences. Not so with Economics. Two of the elementary units of its standard are subject to change, and the resultant standard is therefore variable. This it is, more than aught else, which has caused such great confusion in thought upon the subject of value, and which accounts for the chaotic condition of economic discussion viewed as a whole.

The elementary units of the economic standard which are subject to variation are those of matter and space—typified by labor-power and land-forms. We may choose a unit of time in Economics, as in Physics, and this unit is constant. But the marginal land-form which is the unit of space to-day may not be so next year, and as the marginal land-forms shift from one location to another, the resistances to labor-power of the matter of which they are composed will vary also. Moreover, an exact and constant unit of labor-power is unattainable. The utmost that the economist can do is to determine upon a practical standard which contains elementary units of all three kinds and then develop the laws which govern their variations.

The nearest approach to constancy in the matter of labor-power is in what we have called common labor-power. We repeat the definition:

Common Labor-Power is labor-power exerted with only ordinary skill and unattended by the use of capital-forms.

The most constant return to common labor-power is that which results from its exertion upon the economic margin. And for all purposes one day is the most practical unit of time. We may therefore determine upon and define the economic standard of value as follows:

The **Economic Standard of Value** is that value which results from the exertion of one day's common labor-power upon the economic margin.

Values are commonly expressed in terms of money. For this reason the monetary unit, or legal standard of value, should coincide with the economic standard. The fact that it does not has given rise to a world-wide discussion concerning the monetary standard of value, in which discussion neither side has taken economic grounds as the basis of its contention. The "money question" is no nearer a permanent solution than heretofore. Neither the "single" nor the "double" standard of coinage includes all the elemental units. But these matters belong to Political Economy.

It will be noted that the economic standard of value differs from the marginal return in two of its elements. The time of the economic standard is limited to one day and its labor-power to common labor. The marginal return may apply to any grade of labor-power exerted for any length of time, provided it be exerted upon the economic margin. The gist of the marginal return is that it is the result of *any given* disutility exerted for *any given* time upon the economic margin; while the economic stand-

ard is limited to a *particular* disutility exerted for a *particular* time upon the margin. The marginal return furnishes not an economic measure, but an economic starting point for the measurement of values, and a basis for the comparison of net values. It is itself measured by the economic standard of value.

The marginal return to the common laborer, when confined to one day's time, is the same as the economic standard. If a man has unusual skill, his return upon the margin is greater than that of the common laborer, but in the exchanges of the market the common laborer tends to be one of the marginal pair, not only of the labor market, but of the market in which the products of superior skill are sold. Besides, the difference in skill between the two is only relative. The greater the return to common labor upon the margin the greater the return to superior skill applied thereon, and *vice versa*. The common laborer fixes the marginal wage. The skilled laborer may not despise the "mud sill." The artisan will look in vain for higher wages, if he takes his eyes from the man who works at the margin and fixes them upon his employer because of the latter's ability to pay. The market for wages, as for aught else, is regulated, not from the top, but from the bottom. The most important personage in the whole field of Economics is the man who exerts common labor at the margin.

PART II
POLITICAL ECONOMY

Watchman, What of the night?
The watchman said, The morning cometh.

Isaiah.

Once the welcome light has broken, who shall say
What the unimagined glories of the day?
What the evil that shall perish in its ray?
 Aid the dawning, tongue and pen;
 Aid it, hopes of honest men;
 Aid it, paper; aid it, type;
 Aid it, for the hour is ripe,
And our earnest must not slacken into play.
Men of thought and men of action, CLEAR THE WAY!

Lo! a cloud's about to vanish from the day;
And a brazen wrong to crumble into clay.
Lo! the right's about to conquer: Clear the way!
 With the right shall many more
 Enter smiling at the door;
 With the giant wrong shall fall
 Many others great and small,
That for ages long have held us for their prey.
Men of thought and men of action, CLEAR THE WAY!

Charles Mackay.

CHAPTER I.

OF THE MEDIUM OF EXCHANGE.

Whoso has sixpence is sovereign (to the length of sixpence) over all men; commands cooks to feed him, philosophers to teach him, kings to mount guard over him,—to the length of sixpence.

Thomas Carlyle.

The earliest form of exchange was that of barter. A man with an extra beaver skin and in need of a pair of moccasins was compelled to seek a man with an extra pair of moccasins and a desire for a beaver skin. In cases where even trade was not feasible the balance, or "boot," was paid in any other available labor-form which might be agreed upon. In the course of time certain labor-forms which are generally desired came to be used as mediums of exchange. Finally, wherever they were available, gold and silver came into use as current barter metals because they were not only generally, but universally desired. Any labor-form which, because of its general or universal desirability, passed freely from hand to hand in the market acquired a distinctive utility as a medium of exchange and became a current trade-form. All current trade-forms more or less completely perform the functions of money.

Any basic medium of exchange naturally and necessarily furnishes a unit for the measurement of values. Mere barter furnishes no unit of value, and this is one of its greatest inconveniences. It is not long, however, in any community where exchange becomes a matter of

any importance before some one article of barter is singled out as a common measuring unit for all exchanges and so becomes the medium of exchange. In that rudimentary state of society in which subsistence is gained chiefly by the hunting and trapping of wild animals the unit of value is usually a skin. The particular kind of skin varies with the locality, but in each case some kind is fixed upon by common acquiescence. In the book of Job reference is made to "skin for skin," which shows that at that early day skins were used as money. In the transactions of the Hudson Bay Company in America the beaver skin was the unit of trade. It is said that after coins came into common use in the transactions of fur gatherers, the Indians continued to make exchanges in terms of "skins" rather than in terms of current coin.

In the early pastoral state of society cattle were used to perform the rudimentary functions of money. From this fact originated the words *pecuniary* and *capital*, the former being derived from the Latin *pecus*, cattle, and the latter from the Latin *caput*, head, cattle being counted and exchanged "by the head."

Aside from the foregoing examples may be cited cases in which wampum, shells, whale's teeth, amber, olive oil, various kinds of grain, tobacco, salt, iron, leather, brass and even pieces of wood have been used as money, and consequently have furnished units for the measurement of values. In the course of time, however, gold and silver became the universally accepted current trade-forms in the principal markets of the world. The tendency now is to confine the common measure of all values to a single

trade-form—gold. This metal in high degree possesses most of the requisites for the performance of the functions of money. Being universally desired, it passes current everywhere; being divisible into coins of various sizes, it readily furnishes a unit for the measurement of current values. In it values can readily be stored in small compass and safely transported from place to place; it is durable and not easily counterfeited; its coins may be reconverted into bullion without any loss of value. As a basis for metallic coinage it has no superior. It covers the traditional requisites of money as set out in standard works on Political Economy well nigh perfectly. These requisites are all based upon the overcoming of the disutility of matter, and distinctively apply to current labor values.

In the development of society, however, other than current labor values soon appear. With the advent of competition for the ownership and use of land-forms, land values appear; and with the borrowing of capital-forms for the reduction of the disutility of time, capital values arise. The gold standard, like any other standard of metallic money, contains no elemental unit of value which distinctively takes into account the disutility of space; nor does it contain any distinctive recognition of the disutility of time.

In the course of the development of the market there arose the elements of debit and credit. A purchaser, not having ready money for use in exchange, was entrusted by the seller with the labor-form desired upon a promise to pay the price at some future time. At first these prom-

ises were oral, but after the art of writing came into common use written promises were made and charges were entered upon books of account. Out of the latter practice grew the custom of charges and counter charges, credits and counter credits between two men with an occasional payment by one or the other, as the case might be, of the balance due. This practice curtailed the actual use of money as a medium of exchange, but all debits and credits were based upon the standard monetary unit.

Out of the practice of giving written promises to pay grew the custom of passing these promises from hand to hand as negotiable paper. This still further curtailed the use of coin as an actual medium of exchange, although the written promises were based upon the standard unit of metallic coinage, and gold or silver was necessary to redeem the promises. The paper debit, the distinctive characteristic of which is a promise to pay, evidenced by a writing either in the form of a book account or of a promissory note, has been developed in modern business to a high degree. It involves not only accounts current and promissory notes between individuals, but a traffic in various forms of indebtedness, or debits, through brokers, banks, clearing houses, with the use of checks, drafts, bills of lading, bills of exchange, warehouse certificates, stocks, bonds, debentures, consols, etc., almost without number.

Great attention is paid to this phase of modern exchange in all treatises on money and political economy, and it is currently stated that more than 90 per cent of all exchanges are now made through the use in some form or other of "promises to pay." But all these promises to pay

are based upon the standard unit of metallic coinage and their only function in exchange is still further to reduce the mechanical friction of exchange—to overcome still more completely the distinctive disutility of matter. The metallic coins must exist for the purpose of redemption. The use of written promises to pay, or paper debits, simply avoids the necessity of constantly handling and transporting the coins. In such a monetary system the use of current paper promises to pay constitutes a labor saving device of great effectiveness, but it is nothing more than this. The distinctive disutilities of space and time are not in any wise reduced. They are changed, it is true. But the change is a mere shifting of relative values as between individuals—some profiting and others losing by the process, as when the monetary standard appreciates or depreciates in value from time to time. But in the aggregate, the disutilities of space and time remain the same.

There is another form of paper promise, however, of which we hear but little. It is seldom used, and seems to be but little understood. It is that form in which the written promise is not a promise to pay but to receive. The distinction is simple but extremely significant. Its significance lies in the fact that the promise to receive furnishes a means of securing a medium of exchange involving the three elemental units of the economic standard of value.

Suppose that upon an island dwelt a community under a system of law and land tenure similar to that in vogue in England and America. Suppose, further, that all the land of the island was owned by one man, and that all

land-forms, except those of the lowest grade, were necessarily occupied and used in order to supply the wants of the community. The owner would receive ground rent from every land user except those who might occupy land-forms upon the margin. Practically every man upon the island would be his debtor in some amount every year. On the other hand, let us assume that the owner lived upon the island and spent all his income there every year, employing all grades of labor from common labor up to the most skilled professional service. In such circumstances there would be no need of gold or silver or other precious metal as a medium of exchange or as a standard of values, current or future. The daily wage which he would pay to a common laborer would equal the daily earnings of the man who, without capital, cultivated the economic margin. The laborer would take no less because of the opportunity open to his labor at the margin; the laborer could get no more, because, if he did, the man at the margin would be induced to leave his land-form and compete for employment at the hands of the owner.

Such a people so circumstanced might well adopt the economic standard of value—a day's common labor upon the economic margin. The owner could employ laborers, and land users could pay their rent upon that basis. For instance: to his day laborers let the land owner give a written instrument promising therein to receive such instrument from any person at any time in payment of ground rent or other indebtedness, in lieu of one day's common labor. This instrument, or scrip, would pass current for one day's common labor anywhere upon the island,

and all prices would be based upon one day's common labor as a unit or standard of value. To all other persons furnishing him with labor, or service, or labor-forms, let the owner give similar written promises, or scrip, according to their respective values, up to the amount of his annual income from ground rent. All such scrip would pass current upon the island and metallic money might be unknown. Within the year all these promises would be "redeemed" by being received as ground rent, as we have assumed the owner's annual rents and expenditures to be equal. Inasmuch as all material progress upon the island would be reflected in ground rents, no better index of the volume of business or of the "necessary volume of currency" could be found.

We are so accustomed to think of something tangible, as gold or silver coin of a given shape, weight, and fineness, as the standard of value that it is difficult to conceive of a standard composed merely of certain labor-power exerted for a certain time at a certain place. Yet we know that a given amount of labor-power exerted under given conditions will result in the production of a given labor-form. There is no reason in nature why we should not adopt the given labor-power, so conditioned, as a standard of value, as well as its concrete result—as when it produces the weight of gold or silver contained in the unitary coin. It can not be said that the value of a day's labor upon the margin is variable while the value of a piece of gold is constant, for both are variable. For the measurement of current values the variations of the one may be neither better nor worse than the other. But for the measure-

ment of future values the difference is perceptible and material. To illustrate:

Suppose that A borrows of B \$1,000 to be repaid at the end of 20 years at 5 per cent interest per annum. If the monetary standard be gold, then principal and interest must be paid in gold or its economic equivalent. Suppose, further, that at the time of the borrowing, a common day's labor is of the value of \$1 in gold; while at the end of 20 years it is of the value of \$2 in gold. Then, whereas A borrowed the economic equivalent of 1,000 days' common labor, he can repay the principal with the equivalent of 500 days of such labor. Or, suppose, upon the other hand, that at the expiration of the 20 years, common labor is worth but fifty cents per day in gold. Then it will require the economic equivalent of 2,000 days' labor to repay the principal sum instead of the equivalent of 1,000 days' labor. In the one case the disutility of repayment is diminished by half; in the other, doubled. These are extreme variations, it is true, but they illustrate the principle, and it is a well known fact that the value of the gold dollar with reference to a day's labor does vary. The amount and the direction of the variation is not material to our argument. The same variations which affect the principal sum borrowed will apply to the interest also.

Let us now suppose that A borrows of B \$1,000 for the same term and at the same rate, and that at the time of borrowing the amount of gold now called one dollar and one day's labor are economic equivalents. If, in such case, the economic standard of value is used, then at the end of 20 years the lender is entitled to receive, and the borrower

must pay the economic equivalent at the time of 1,000 days' common labor, regardless of the value of gold or of any other labor-form. If at the end of 20 years one day's common labor will purchase twice as much gold as at the beginning of the term, this fact will make no difference whatever to either of them, as it will also purchase twice as much of everything else in the market, other things being equal. The borrower expected to return 1,000 days' labor or its economic equivalent, and he returns this and no more; he knew in advance just what the disutility of his task would be, measured in common labor, and this disutility is unchanged. The lender had parted with the stored up utility of 1,000 days' common labor, and this is exactly what he receives back as principal. At the time of the loan both could form accurate conceptions of what the disutility of exerting a day's common labor-power would be 20 years thence; but neither could then accurately determine what, in 20 years, would be the disutility of obtaining a piece of gold of given weight and fineness. The disutility of the latter might be doubled or it might be cut in half—neither could tell as to that.

The matter of the standard of value, whether the gold standard or the economic standard, would affect not only the borrower as to the relative disutility of repaying the loan, but it would also equally affect the lender as to the relative utility of his loan after repayment. If under the gold standard common labor was cheaper by half than when the loan was made, so also would be all labor-forms which he might desire to purchase. This would double the utility of his money in the market. With it he could

then purchase the fruits of 2,000 days' current common labor. But if the value of labor should double in the 20 years, so also would the prices of all labor-forms, and his money would buy but half as much as formerly. With it he would buy only the fruits of 500 days' current common labor.

On the other hand, if the economic or labor standard of value was used, the values of all labor-forms would remain relatively unchanged. However prices may have changed absolutely, the borrower could pay his debt with the fruits of 1,000 days' current common labor; and with the money so repaid the lender could purchase the fruits of 1,000 days' current common labor. No standard of value can be absolutely constant; and the only standard which can be relatively constant is the economic standard—a standard based directly upon all the elemental units of disutility.

If the owner of all the land upon the island in the illustration we have used were also its absolute ruler, politically as well as economically, and held the land as sovereign instead of citizen, the ground rent received by him would be public, instead of private revenue. In such case his expenditures would be expenditures of State, and his promises to receive would be government paper. Ground rent would be paid as a tax, and the paper money paid out by the government to its employes and other creditors would become current credit-forms redeemable in payment of taxes—the amount of each man's tax or ground rent being computed in terms of common days' labor.

The greenbacks issued by the United States government, being promises to pay coin, are evidences of public indebtedness, and are, therefore, current debit-forms. In the hands of the holder they mean that he is entitled to receive labor-forms—gold and silver coins—from the government. In the hands of the holder the promises to receive which we have described, if such were issued instead of greenbacks, would mean that he is entitled to receive credit to that amount upon his taxes or other indebtedness to the government. If he had no personal indebtedness to the government, he could readily pass his current credit-forms in the course of business to some one who had.

From this brief discussion we learn that a medium of exchange may exist under any one of three forms: current trade-forms, current debit-forms, and current credit-forms. The first has been defined, but we repeat the definition:

A **Current Trade-Form** is a trade-form which passes current as a medium of exchange.

A **Current Debit-Form** is a written evidence of debt which passes current as a medium of exchange.

A **Current Credit-Form** is a written evidence of credit which passes current as a medium of exchange.

The United States employs current trade-forms in its coinage, and current debit-forms in its greenbacks and treasury notes of various kinds. National bank notes are also current debit-forms. If this government should pay its employes and creditors in promises to receive, redeemable in payment of taxes—or other indebtedness to the government—in lieu of gold, such credit-forms would pass current, but gold would be the monetary standard, and such

a system would not distinctively recognize in its standard of value the disutilities of time and space. The disutility of matter would be greatly lessened by destroying the necessity for a universal struggle for gold, or gold and silver, for use as money. If the United States should go farther and adopt the economic standard of value, instead of the gold standard, as the basis of its promises to receive it would recognize in its standard the disutilities of both matter and time; and in so far as its taxes are levied upon bare ground values, irrespective of improvements, its standard would also recognize the disutility of space. By levying all its taxes upon such ground values, the economic standard of value would be made complete.

CHAPTER II.

OF CURRENT CREDIT-FORMS.

They (governments) determined to try whether they could not * * * make a piece of paper issued by them pass for a pound, by merely calling it a pound, and consenting to receive it in payment of taxes. And such is the influence of almost all established governments, that they have generally succeeded in attaining this object: I believe I might say they have always succeeded for a time, and the power has only been lost to them after they had compromised it by the most flagrant abuse.

John Stuart Mill.

Bank paper must be suppressed, and the circulating medium must be restored to the nation, to which it belongs.

Treasury bills, bottomed on taxes, * * * thrown into circulation, will take the place of so much gold and silver.

Thomas Jefferson.

During the first year of the Civil War the United States government issued "demand notes," afterwards known as greenbacks, to the amount of approximately \$60,000,000, as unlimited legal tender for all debts public and private.* These notes were intended to circulate as money and were issued in denominations of convenient size for this purpose. The notes stated upon their face that the United States of America promised to pay the bearer, on demand, the sum of ten dollars, or whatever the sum indicated by the denomination of the several notes might be. Neither

*Issues of July 17. 1861, February 12, 1862, and March 17, 1862.

the laws authorizing their issue nor the notes themselves stated in what they were payable, but the government announced, through its Secretary of the Treasury, that they were payable in coin.

Beginning with an issue of \$150,000,000, authorized in February, 1862, other greenbacks were authorized during the war until the total issues reached the sum of \$450,000,000. But none of these notes, except the \$60,000,000 above mentioned, were full legal tender for all debts public and private. All subsequent issues contained a clause which made them legal tender for all debts except *duties on imports* and interest on the public debt. That is to say, the government issued these subsequent notes in payment of all of its current expenses (not including interest on its bonds), but it would not receive them in payment of duties on imports which constituted a chief source of its revenue.

Of the \$60,000,000 of demand notes referred to \$50,000,000 were taken up by the government and a like amount of the subsequent notes of limited legal tender were issued in their stead. But \$10,000,000 of the original unlimited tender notes remained in circulation throughout the war.

In the latter part of December, 1861, the banks of the United States, by concerted action, suspended specie payments; that is, they ceased to pay out gold and silver, and began to transact all business upon a paper money basis. The government also ceased to pay out specie except as interest upon the public debt. The result of this was that all demand notes, or greenbacks, of the government of the

limited legal tender issues began to depreciate in value, and continued to do so until in July, 1864, it required \$2.85 of such currency to purchase \$1.00 in gold. In the language of the market, however, instead of regarding greenbacks as at a discount, gold was said to be at a premium, and in July, 1864, gold was quoted at 285.

At no time during the war were any of the unlimited legal tender greenbacks worth less than gold. The \$10,000,000 referred to were outstanding during all that time and passed current as the equivalent of gold, being accepted in payment of duties on imports, but not being, in fact, redeemable in coin either at the banks or at the government treasury after the suspension of specie payments. The reason that these demand notes remained at par with gold could not, therefore, have been because they were payable in coin as is generally supposed. The sole reason was that they were receivable at the custom houses in payment of duties due to the government. If at any time they had been deprived of this quality, they would at once have depreciated to the level of the greenbacks of the limited legal tender variety.

The reason of all this, in the light of our previous discussion, is plain. All of these demand notes purported to be government promises to pay, and so were current debit-forms. But those of the \$60,000,000 first referred to contained an implied promise by the government to receive them in payment of taxes at the custom houses, and so they became *de facto* current credit-forms.

If, instead of reading "On demand, the United States of America promises to pay the bearer Ten dollars," with

the endorsement of the unlimited legal tender clause thereon, one of these notes had read: "On presentation hereof the United States of America will receive this certificate in lieu of ten dollars in payment of any indebtedness due to the United States as duties on imports or otherwise," such certificate would have passed current with gold at its face value for the reason above stated. But in that case the true reason would have been apparent, instead of being obscured by the fiction of redeemability in coin at a time when for many years specie payments were suspended and redemption in coin impossible.

In 1875 congress passed an act which provided that on January 1, 1879, specie payments should be resumed at the United States treasury. By virtue of this act demand notes which had exchanged for gold at the ratio of \$2.85 for \$1.00 in 1864 were exchanged at the treasury at par with gold in 1879. In common speech these greenbacks were said to have been made redeemable in gold on and after January 1, 1879. But in fact, if congress had simply enacted that on and after said date greenbacks should be received at par in payment of taxes due the United States, the effect would have been just the same. From this discussion it may be seen that by a simple change in the wording of its greenback currency a paper money based upon the gold dollar as a standard could be utilized by the United States up to the amount of the average annual expenses of the government,* exclusive of its obligations

* About \$550,000,000 for the year ending July 1, 1903. During this year about \$343,000,000 of greenbacks were in circulation.

now payable in gold. But in order to put the finances of the nation upon an economic basis the true standard of value should displace the present gold standard, and the dailor should be made to supplant the dollar as the practical unit of exchange.

A **Dailor** is a current credit-form, representing the value of one day's common labor on the economic margin, issued by the State in payment for services and satisfoms, and redeemable by the State in receipt for taxes.

In case this plan were adopted the dailor would read substantially as follows:

On presentation of this certificate the United States of America will receive the same in lieu of one day's common labor, or the value thereof, in payment of any taxes or other indebtedness due to the national government.

These credit-forms would be issued in denominations of one, two, five, ten, twenty, fifty, one hundred, and one thousand dailors in like manner as our present national currency. They would be paid out to all persons furnishing labor-forms, labor, or services to the general government. If these persons owed the government any thing in taxes or otherwise, their credit-forms could be utilized in canceling such indebtedness. If not, such credit-forms could be passed at their full value to others who did owe taxes, and in their hands could be used in payment of such taxes and so be redeemed. Such credit-forms would thus pass current and would perform all of the characteristic functions of a medium of exchange.

It is claimed by the advocates of metallic money that the thing chosen to circulate as a medium of exchange

must have a high degree of utility for some other purpose. This is necessarily true of a medium of exchange which is developed directly from a system of barter. Historically it is true that all money-forms which have been used not only as a medium of exchange, but as a standard of value, have had a marked utility for some other purpose. But this is only because all monetary standards hitherto used have developed directly from barter without any reference to the function of the State in relation to the market. If the State, practically without cost, can furnish something highly useful as a medium of exchange and not useful for any other purpose, surely this is a direct economic gain. The utility of gold and silver for other purposes will not be affected, and the supply of these metals for use in other ways will be greatly increased; while at the same time the new medium of exchange will not detract from the supply of any other useful article.

A money-form which is widely used for other purposes is susceptible to all the fluctuations of value which result from such use. This is a thing to be avoided, and it can only be avoided by adopting as a medium of exchange something which has practically no other utility. In this view the current credit-form is the most desirable of all money-forms.

It is next urged that in order to be a medium for the exchange of values, a thing must itself be of value. This is true. And since the values of all labor-forms are created by labor-power, what is more valuable than labor-power itself? And in what form can the value of labor-power be manifested better than in a certificate attested

by the government that certain labor has been performed, and that the laborer is entitled to his reward? This is the real gist of the certificate which we have called a dailor.*

The third requisite of a money-form, as usually stated, is that it must not only have value, but it must also be a measure of value. We have gone farther than this and have shown in a former chapter that it must be a measure of all of the three distinctive forms of value, viz., labor value, capital value, and land value. The current credit-forms which we advocate for use as money represent a given kind of labor-power—common labor—exerted for a specified time—one day—at a given place—the economic margin. This furnishes us not only with a measure for all forms of value, but with a unit or standard of measurement—the dailor. Under this system every man who performs common labor for the public will receive one dailor a day. In the interchange of the market his wages will purchase the economic equivalent of the return to the self-employed worker upon the economic margin. For, if one of these should fare perceptibly better than the other, there would result a shifting of occupation which would soon equalize the current returns of these two classes of common laborers. Common laborers everywhere would necessarily receive one dailor a day, or its equivalent, as the return for their labor, and the wages of the common laborers would become the basis for the payment of all other wages and

* We use the term *dailor* for convenience in this discussion. If the doctrines of this chapter were adopted the word *dollar* could well be retained.

for the measurement of all industrial returns. In this way the prosperity not only of the government employes, but of all persons performing labor or services or engaging in productive enterprises, would directly depend upon the status of the man at the margin.

In the fourth place it is claimed that the basic money-form in any country should be made of such material as will cause it to pass current anywhere in the world at substantially the same value. This sounds well, but it is a mere matter of sentiment. There is no more reason why the people of the United States should not transact all domestic business with current credit-forms issued by the government than why they should not use checks, which are negotiable only where the maker is known. Wherever the credit and stability of the government are recognized, its credit-forms will pass current just as its debit-forms—greenbacks and treasury notes—pass current in foreign countries at present. And then as now, gold and silver may still be coined, the stamp of the government certifying to their weight and fineness. Such coins will pass current then, as at present, at their bullion values in foreign markets and in settling the balances of international trade.

In the fifth place it is a prime requisite that a basic money-form should furnish the best available standard for deferred payments. In the last chapter we learned that in present conditions a debt contracted now and payable twenty years hence may require twice as much labor to repay it at maturity as at present. And on the other hand, the creditor might receive the labor products of only half as many days as were represented by

his money-forms when loaned. But by the substitution of the economic standard of value for the present standard, and the dailor for the dollar as the unit of payment, the same number of days' labor would be returned as was borrowed, let the loan run as long as it may. The dailor furnishes the only fit standard for the making of deferred payments.

In the sixth place a monetary system must readily accommodate itself to the varying demands of trade. We hear a great deal nowadays about the necessity for an elastic currency. In normal conditions, such as would prevail under bisocialism, the demands of trade would be much more uniform than at present, and such fluctuations as would exist from time to time would have economic and easily ascertained causes. Such fluctuations could readily be anticipated and provision could be made against them. No man or set of men, for financial gain, could in any way manipulate the supply of currency as at present. For this reason one of the most prolific causes of financial stress would be eliminated. Bisocialism could have no Black Fridays. Arbitrary expansion and contraction of the currency would be unknown.

Again, under bisocialism the most prolific and persistent of all causes of periodical and general financial depressions would be removed. In the established order the private appropriation and absolute control of land-forms and the consequent artificial lowering of the economic margin gives to the category of ground rent a flagrantly excessive share of the net values of production. The more prosperous the times the higher the ground rents; the greater

the struggle for advantageous land-forms, the more these are taken up in advance of actual need and held out of use for a price which finally becomes prohibitive. The increase of rent swallows all the measurable gains of advancing civilization, and the tribute finally becomes more than production can bear. Business men begin to fail, and every failure embarrasses many who are already on the verge of collapse. Loss begets loss, private credits become strained, financial accommodations are withdrawn, and ruin becomes widespread. Finally ground rents are lowered, business enterprises tend to recover, make gains, and finally prosper openly. Then again the rent line is lowered, ground rents rise and encroach upon the earnings of labor and capital, and the same catastrophe is repeated, but with ruin more widespread than before.

Under bisocialism, therefore, with a currency governed by the needs of the nation and not by the rapacity of the so-called "monied interest," and with healthful production based upon a normal economic margin, violent financial fluctuations could have no place. Gold and silver would not be eliminated as money-forms. Their use would not be confined to foreign trade. The government would always receive them at their actual value in payment of taxes. The dailor and the dollar would circulate together, the former being the standard and regulating the value of the latter in common with all other labor-forms. Any approach to stringency in the money market would readily call into circulation all the gold and silver which might be required for domestic trade. An unusual demand for these metals for monetary purposes would tend to raise

their values and would quickly cause them to be withdrawn to some extent from other uses. Stability is a great deal better quality in a monetary system than elasticity. In securing both of these in adequate degree nothing can be so efficacious as normal economic conditions. The elasticity of the currency, whether it be great or small, must be a natural elasticity, and not in any manner or degree subject to manipulation by any man or class of men. Otherwise it were better to have no elasticity at all.

We have now shown that the current credit-form represented by the dailor has the requisite utility and the necessary value of a medium of exchange; that it furnishes both a measure and a unit for the measurement of value; that it will pass current without question at home and may, if necessary, be supplemented by the use of metallic money both at home and abroad; and that it furnishes the stability required by an ideal standard for deferred payments. These constitute the prime requisites of a medium of exchange. Subsidiary to these the following requisites are usually mentioned in treatises on the subject of money.

A money-form must have in marked degree the quality of convenience. The experience of the present day shows that in this respect paper currency has a great advantage over coin and especially over gold. In current transactions coin is but little used except for change and the payment of small sums of money. Under the system of credit-forms above proposed it would doubtless meet the convenience of the people to coin the dailor from aluminum—a metal of little weight and now of trifling value in itself—

and to have subsidiary coins of the usual denominations made from aluminum, nickel and copper.

The quality of durability was formerly insisted upon as chief among the subsidiary qualities of money. But under a system of current credit-forms this quality would become one of least importance. In the usual course a credit-form would be issued for current expense and redeemed in receipt for current taxes. The life of the average credit-form would not exceed one year. Whether a given credit-form when received by the government should be re-issued or canceled is a matter of administrative detail which we need not now determine. Theoretically it would become a new credit-form, even if re-issued.

Akin to the foregoing is the demand usually made that the ordinary medium of exchange should furnish an indestructible storehouse, as it were, for the preservation of values while in transit and in hoarding for long spaces of time. Gold possesses this quality in high degree, and for this reason it is urged that gold is the material most fit for a circulating medium and for the standard of value. But under the economic standard of value and a system utilizing credit-forms as currency, gold would be just as available for the safe transportation and storage of values as ever. If the reasoning of the standard economists upon this point were true, diamonds would make even a better standard of value and medium of exchange than gold. Their argument, if it proves anything, proves too much.

Portability is another of the standard demands of a circulating medium. In this respect paper currency of large denominations has every advantage over coin. The bulk

need not be great and the weight, even of a large sum, is insignificant.

It is also said that the material used as a medium of exchange should be susceptible of adequate divisibility, and that the different divisions should be readily cognizable by their sizes or by their respective appearances. A paper currency yields readily to this demand in so far as it properly extends. Experience has shown that there is no necessity whatever for making a ten dollar bill one-half the size of a twenty dollar bill, and so on throughout the different denominations. By a difference of coloring and engraving bills of the different denominations are now readily cognizable and distinguishable, and this is all that is required. In respect to the subsidiary coins, the present differences of size may be adhered to when silver is changed to aluminum, which resembles it in appearance save for the lack of luster.

Lastly, it is claimed in favor of a metallic standard that silver and gold coins may be reduced to bullion substantially without loss, and bullion may be converted into coins substantially without expense. In this way it is claimed that the supply of money may be regulated and, in fact, tends to regulate itself, since as the bullion value of these metals rises coins will be melted for use as bullion, and as bullion values fall the metals will be more extensively coined. But under a system of current credit-forms limited to the expenses of the government and fully redeemed in receipt of its income, the supply of money will also automatically regulate itself. And if the revenue of the government be confined to the absorption into the pub-

lic treasury of all ground values, there will at all times be a definite and normal relation between the amount of money outstanding and the volume of business currently transacted in the entire country. For it is the demands of business and the condition of trade in any community which determine the ground values of that community; and when these ground values are all absorbed in taxes and a corresponding amount of credit-forms are issued, the same relation between the currency and current business will prevail as between current business and ground values.

This is indeed one of the great factors in the economic demand for the adoption of credit-forms as currency, and the economic standard as the standard of value. Normal conditions will then at all times prevail in what we call the money market, and the supply of money will always be entirely independent of the manipulations of private persons or corporations. Banks will be relegated to their normal functions of making loans and exchanges and will cease to be an overshadowing power in the financial polity of the nation. The issuing of bank notes to circulate as money will be abolished along with all other differential privileges now created and enforced by law. The banking business will not be destroyed, nor its normal functions interfered with, but rather promoted. For in present conditions not only do banks have differential privileges, but these privileges are of greater benefit to some banks than others—to the great centralized institutions rather than the smaller banks away from the money centers.

The present tendency is for those great banking institutions specially favored by the government to make financial adjuncts of the smaller and more remote banks, and to appropriate unto themselves, as it were, the cream of all the banking business. The thing that will be most advantageous to the ordinary banker is a return by all bankers to their normal functions under conditions which will bring greater prosperity to their respective communities at large. A legitimate banking business prospers as the community about it prospers, and not otherwise. The prosperity of the community at large, in normal conditions, is based directly upon the prosperity of its marginal producer. The dailor, not the dollar, is the true harbinger and measure of his prosperity. The current credit-form is the only medium of exchange having a complete economic basis.

CHAPTER III.

OF MONOPOLY AND FRANCHISE VALUES.

I do not recognize as either just or salutary a state of society in which there is any “class” which is not labouring; any human beings exempt from bearing their share of the necessary labours of human life, except those unable to labour, or who have fairly earned rest by previous toil.

John Stuart Mill.

We have hitherto sought, as far as possible, to limit our discussion of values to those values which have their origin in normal conditions. By normal conditions we have understood those conditions which attend a market unaffected by juridical institutions, laws, or customs. We now come to consider values as they appear in a market affected more or less completely by such institutions, laws, and customs. This leads us at once to a new and artificial element in the origin of values—the power of the State to create and maintain differential privileges in industry, exchange and land tenure.

A **Differential Privilege** is an artificial advantage in industry, exchange, or land tenure, created and maintained directly or indirectly by the State, by means of which the possessor may acquire and retain differential net value.

From the earliest times governments have exercised this power. It is not our purpose in this chapter to seek to justify or specially to condemn such action, but to examine

critically the effect of the exercise of such power by the State upon values in various circumstances.

Net value lies between two movable points, the point of positive utility and the point of exchange. The individual producer may increase his net values by lowering the point of positive utility, or by raising the point of exchange as to his particular labor-forms. The point of positive utility may be lowered in such manner as not to affect either the net values of other producers or the net salvage of any consumer. Thus, if an individual producer exhibits unusual ability or acquires unusual skill, the effect may be an increase of net value to himself without any corresponding loss or detriment to another. The same may be true, if he discovers some new process, or invents some tool or instrument or machine for use in his enterprise. In all these cases he may enjoy increased net value, both absolutely and relatively, until the ability, skill, process, or instrument of production, at first peculiar to himself, shall become commonly used by his fellows. If all others are as free as himself to exhibit, acquire, discover, invent and use such ability, skill, process, or instrument, his superiority, while it lasts, will give him a relative advantage, but will ordinarily not increase the disutility, industrial or commercial, of any person.

On the other hand, if the possessor of such advantage can, by law, or under its sanction, prevent other producers from using a like advantage, should they be able to develop, discover, or otherwise attain the same, he not only can increase his own net values, but can prevent the increase of the net values of his competitors in so far as

such increase is dependent upon his artificial advantage. Under the law of the market, which makes market price dependent upon the marginal pair, the price of the products in question may remain unchanged, and he alone may possess an exclusive advantage. The lowering of the point of exchange—the falling of price—which naturally follows the free use of an improved method, process or instrument, may be prevented, and thus the consumer is deprived of the advantage of lower cost. It is a necessary result of any such artificial advantage in production that all other producers and all consumers are barred from enjoying benefits which, in normal conditions, would arise from lessened disvalue on the one hand, and lessened cost on the other. All consumers are deprived of the benefits of the normal socialization of utility.

As already indicated, differential privileges may exist in industry, in exchange, and in land tenure. A man may secure an exclusive privilege for the use or control of a certain process, or of a certain tool or machine used in manufacture; or he may secure an exclusive trading privilege at a certain place or in a certain line of trade-forms; or, finally and most important of all, he may secure the exclusive use in industry or exchange, or both, of superior land-forms.

Differential privileges may be granted with the avowed purpose of giving the possessor an artificial economic advantage, or they may be granted immediately and ostensibly for some purpose supposedly politic in its nature, the economic advantage being looked upon as merely incidental. The former may be called *direct*, and the latter

indirect differential privileges. A patent right, so-called, is an example of direct privilege; while a protective tariff furnishes many instances of indirect differential privileges.

The most important distinction in differential privileges arises from the fact that in most cases full and free competition among individuals would be possible but for the action of the State in creating the privilege; while in a few cases natural causes intervene to prevent such competition among individuals prior to any act of the State and irrespective of such action. For instance, in manufacture, all men, in the absence of patent laws or other restrictions, can fully and freely compete in the use of all processes and of all machinery; or, in exchange, in the absence of tariff or other restrictive laws, all men can fully and freely compete in the market. But in such businesses as the operation of steam and street railways, the distribution of consumers of water, gas, electricity, and other so-called "public utilities," full and free competition is impossible from natural causes. But one railroad can ordinarily be constructed upon the shortest and best line between two cities; and even if two railroads are parallel throughout their entire length, the competition is practically limited to these two roads, and may be entirely eliminated by agreements for pooling. In the same way full and free competition is impossible in the use of city streets for street railways, water mains, gas mains, light, power, telegraph, and telephone systems.

It is true that it is physically possible for two or even more competing companies to use a given street for some or all of the foregoing purposes; but this does not alter

the fact that every such business involves a differential privilege. The benefits of the privilege in any such case are divided between the competing companies, and it is seldom, indeed, that the competition is strong enough and persistent enough to benefit the public for any considerable time. With two companies in the field there is practically no danger of competition from a third, and the two find it to their advantage to pool their interests and to unite against further competition rather than to compete between themselves. This is not true of the grocery business, the dry goods, hardware, or jewelry business, and the like; nor is it true of any manufacturing enterprise in normal conditions. These are all open to full and free competition; among them pooling is practically impossible.

There is another distinction, however, which more fully differentiates those businesses which are normally open to full and free competition from those which are not. In the grocery business, for instance, it is not necessary for the proprietor to make private use of public property or to invoke the exercise of any public power. He owns the land-form upon which his store is located or rents it from a private owner, and the same is true of his store building. But a street railway company, a private water, gas, electric light, or telephone company makes use of the public streets in a manner not open to the general public. In order to do this they are required by law to secure special grants of privilege from city and village councils in the form of franchises.

In addition to this private use of public property,

these companies usually have granted to them by law the right of eminent domain, or the power, through the judicial machinery of the State, of condemning private property for use in their businesses when necessary. This is especially true of steam and street railway companies. In the authority to invoke and use the right of eminent domain these companies have delegated to them a part of the sovereign power of the State, and in condemning private property they exercise what is properly a public function.

In addition to these distinguishing characteristics, the business carried on in an enterprise which requires the grant of a franchise by public authority is itself of a public nature. The corporations which engage in such enterprises are frequently termed quasi-public corporations. They are also known as public service corporations. The State maintains the right to regulate them in a special manner. In the case of steam railways, congress has power to regulate freight charges in all cases of inter-state commerce, and the several states regulate fares and freight charges within their respective limits. It is now conceded that cities may, within reasonable limits, regulate the fares charged by street railway companies, the prices charged by gas companies for their product and, in a general way, by all persons or companies who operate public utilities.

A **Public Utility** is an industrial enterprise which necessitates the special use of public land-forms or the acquisition and use of private land-forms under the special power of eminent domain, or both, in supplying some product or service generally desired by the people.

In present conditions the differential privileges con-

ferred by public authority are of two kinds: monopolies and public utility franchises. The term *franchise* has so many different applications that it is necessary to limit it in this discussion by placing before it the words *public utility*. This is to be regretted, especially as it compels us to adopt a still longer phrase in speaking of public utility franchise values. But, unlike many lengthy terms, these phrases do not tend to obscure the subject. They are easily understood and are capable of accurate definition. Simplicity and accuracy are the first requisites in the elaboration of any science.

A **Monopoly** is a differential privilege exercised or enjoyed in connection with some private enterprise which, in normal conditions, is open to full and free competition among individuals.

A **Public Utility Franchise** is a differential privilege exercised or enjoyed in connection with some private enterprise which, in normal conditions, is not open to full and free competition among individuals, but requires the private use of public property or the private exercise of a public function, or both, to make such enterprise effective in private hands.

These definitions lead to simple distinctions as to monopoly and public utility franchise values.

Monopoly Values are differential net values acquired and retained by means of monopolies.

Public Utility Franchise Values are differential net values acquired and retained by means of public utility franchises.

In the remainder of this discussion the term *franchise*

is used only in the sense of *public utility franchise* as above defined.

Franchise values are related upon the one hand to land values, and upon the other hand to monopoly values. Like land values they involve the use of superior land-forms under the sanction of the State; but land values arise under a general form of land tenure applying to the use of land-forms under fee simple titles in enterprises fully open to competition; while franchise values arise under a special form of land tenure limited to non-competitive enterprises only.

A farmer or a merchant occupies a land-form under a general tenure which applies alike to all persons occupying land-forms for the same or for any normally competitive purpose; while a railroad company occupies a continuous strip of land-forms under a special tenure carrying with it the extraordinary power of eminent domain, and uses such strip for a purpose normally non-competitive. When the possessor of a franchise appropriates for special use land-forms hitherto devoted to public instead of private uses (as a public street) he does not exercise the right of eminent domain, but he always engages in a normally non-competitive enterprise. The latter is the distinguishing characteristic.

In a former chapter we have seen that if the State should appropriate by way of taxation—or more properly speaking, in lieu of taxation—the entire ground value of all land-forms each year, the owner's investment in a given land-form, irrespective of improvements, would be but the present worth of one year's ground rent; and upon this in-

vestment he would make a percentage equal to the current rate of interest upon secure investments, and nothing more. He could not hold his land-form at 20 years' purchase instead of one, and secure an income based on such increased valuation. Land-forms would increase in value as the economic margin receded, but of this increase the owner could appropriate but a small part (a percentage equal to that expressed by the current rate of interest), the remainder going to the State in increased ground value. Land-forms would then have neither speculative nor monopoly values, and the income of an investment at true values would be the economic equivalent of the income to pure capital invested in productive enterprises at the current rate of interest. Millions of dollars now invested in monopoly and speculative land values would be diverted to productive uses, to the great encouragement and increase of industry and exchange.

Essentially the same thing is true in the case of land-forms used under a franchise for a special purpose. The income of such an enterprise, in so far as it is dependent upon the special use of the land-form, is a species of monopolized ground rent. The value of the franchise as distinguished from the value of the plant itself—i. e., the personal property, so-called, of the concern—is a species of monopolized ground value. If the franchise value is retained by the franchise owner, it accumulates in selling price after the manner of land value; while if the franchise were taxed at 100 per cent of its selling value, this value would be the present worth of one year's income from the special use of the land-forms involved. The net in-

come of the franchise as such would then be equivalent to the interest upon an amount of pure capital equal to the selling value of the franchise at one year's purchase. In such circumstances money invested in an enterprise using a franchise would pay but the current rate of interest, or its economic equivalent. The value of the differential privilege, aside from this current return, would be absorbed annually by the State which granted the franchise. If both land values and franchise values were taxed at 100 per cent of their selling values, the State would absorb all differential values which result from the use of superior land-forms over and above the equivalent of the return to pure capital, and land values and franchise values would yield "unto Caesar that which is Caesar's," and unto the producer that which is distinctively his.

Although economically distinct, monopolies and franchises are closely related. Indeed, they are frequently joined, and the one is made to support the other in a given business enterprise. A street railway company may be possessed of a franchise as to its use of public streets and of one or more monopolies with reference to its rolling stock and motive power. The same person, firm, or corporation, may possess a monopoly in industry, as a patent; a monopoly in exchange, by being the beneficiary of a tariff law; and a monopoly in land tenure through the exclusive ownership of a land-form furnishing natural water power. To these holdings may also be added, in the hands of a single person, or concern, a franchise in the matter of transportation, or of furnishing heat, light, and power by means of electricity to the people of a great city.

All of these monopolies and franchises are dependent upon the State for their existence and enforcement in private hands.

Just as there is an evolution in the development of the normal market, so there is an evolution in the development of monopolies in an abnormal market. First, there arises the simply monopoly, limited in extent and unrelated to any franchise; then follows an extension of the scope and application of the simply monopoly; then the franchise is developed as an adjunct to simple monopoly, rendering the economic situation complex; then follows the establishment, in primitive form, of monopolies and franchises united under one management for the purpose of controlling the differential values of a given trade-form in an extensive local or even a national market; and finally these compound or trust monopolies are extended in scope and application until they seek to affect and control the differential net values of a given trade-form or class of trade-forms in the markets of the world. This evolution is epitomized in the following definitions:

A **Simple Monopoly** is a single monopoly unrelated to a franchise.

A **Complex Monopoly** is a monopoly coupled with a franchise.

A **Compound or Trust Monopoly** is a combination of monopolies, simple or complex, under one management, for the purpose of controlling differential values as to a given trade-form, or class of trade-forms, in a general or universal market.

In a former chapter we learned that when land-forms

upon the normal margin are monopolized and held out of use, the result is to force the marginal producers to a lower level and so reduce the amount of the marginal return. Not only this, but such withholding of the normally marginal land-forms from use increases the ground rent and also the ground value of all land-forms above the margin. This makes it more and more difficult to acquire land-forms for use either in production or for residence purposes, and compels a greater number of people to resort to an already artificially depressed economic margin.

In like manner a monopoly in any of the processes of industry or exchange does not expend all of its baleful effects upon those who are directly superseded or injuriously affected by it. The people who are displaced from their normal callings by the existence of monopolies in the hands of a few persons in a given field, seek to find business opportunities or employment in some other vocation where monopolies do not exist. This tends to overcrowd these latter callings and thereby unnaturally to reduce the net values to be obtained therein.

As the divergence between the returns of monopolies and of ordinary occupations becomes more and more apparent, a greater number of people seek the advantages of differential privileges, and monopolies tend to multiply. This still further accentuates the divergence between the favored and the unfavored, and still further accelerates the piling up of unearned net values in the hands of the few upon the one hand and, upon the other hand, the reduction of the wages of the many to a minimum which will barely sustain life and necessary bodily strength. Simple mo-

nopolies become complex and the evil results are increased accordingly. And when trust monopoly after trust monopoly is formed, the crowding in the occupations not favored by law becomes so great that all labor values are forced below the normal return to labor-power, and all capital values become less than the marginal return to pure capital. An unnatural and unnecessary strife arises between employers and their employes even where no monopoly is enjoyed by the former. All consumers suffer from prices rendered artificially high, while those who produce receive wages which are artificially low. All such conditions are abnormal and unnecessary and should be abolished.

It is at this point that standard Political Economy comes to the rescue of the established order. It teaches that the evils which we have described are natural and necessary evils, and that they would continue to exist, if all monopolies were abolished and the best of economic conditions were established among men. They maintain that the fecundity of the human race is so great that population constantly tends to press upon subsistence, and that the inevitable result must be a struggle for existence in which the fittest shall survive. But even if this ghastly conception of Infinite Goodness were true, should not all men have equal opportunity to survive? Shall not the State, which assumes to protect the weak against the strong, the property owner against the thief, after production is completed, also assume to protect the weak against the strong, the honest toiler against the exploiter of his labor-power in the process of production? Assum-

ing that the opportunities of nature are not sufficient for the sustenance of the race, shall the State parcel out to the few such opportunities as exist? Does not the general in a beleaguered city dole out the scant rations with an impartial hand?

As long as some men roll in the lap of luxury through the differential privileges of the law, let not Political Economy malign the Most High.

In the United States at the present time there is a corporation engaged in the manufacture and sale of kerosene oil and other products of petroleum. It employs thousands of men, uses both auxiliary and pure capital-forms in large measure, is possessed of monopolies in the processes of manufacture, owns or controls nearly all of the principal oil fields of the continent, controls transportation of its own and like products over railways through a system of rebates, and has numerous and valuable franchises for pipe lines, one of which extends from its principal oil fields to the Atlantic seaboard. In its products appear net values of all possible kinds—labor values, capital values, land values, monopoly values and franchise values, all of which we have heretofore defined. What chance has the ordinary producer of oil and kindred products in competition with this gigantic beneficiary of all forms of privilege?

We have already discussed labor values and capital values, and have shown the relation in which they stand to each other, and in which both stand to land values. From what has been said it may be seen that monopoly and franchise values are essentially different from labor val-

ues and capital values. The latter two are based directly upon labor-power, do not depend upon the power or favor of the State for their creation, and can be traced to the labor-power of particular individuals; while both franchise and monopoly values are based directly upon the power of the State in granting and maintaining differential privileges, and can not be traced to the labor-power of any particular individual or individuals.

While monopoly and franchise values differ essentially from labor values and capital values, they also, in many respects, differ from each other. Monopoly values would not arise at all, were it not for the action of the State in creating them. On the other hand, franchise values, like land values, would arise without any positive action by the State.

The restriction placed by nature upon the use of superior land-forms exists independently of the State, but the State can not exist without exercising some sort of control over the land-forms within its limits. The State has to do with territory as well as with people; and while it does not create either land-forms or land values, it controls the tenure of the one and the distribution of the other. If land-forms are used under any organized and orderly system of industry and exchange, the State must establish and maintain some form of land tenure; and if enterprises not in themselves fully open to competition are left in private hands, the State must grant and maintain franchises. But the special value of all franchises may be appropriated by the public in taxation or by the terms of the franchise. Under a competitive system in which pub-

lie utilities are not directly socialized by public ownership and operation there is an economic reason for the creation of a franchise—a differential privilege, at least in form, in a business naturally non-competitive; but there is no economic reason or excuse whatever for the creation of a monopoly—a differential privilege in a fully competitive business.

In this connection it should be borne in mind that the point of exchange measures not only value to the seller, but cost to the buyer. Therefore a rise in price, or the artificial maintenance of price above the point incident to the normal market, can not increase the net value of a producer or seller without at the same time correspondingly increasing the cost to some buyer or consumer. Consequently there is no possibility of any general or aggregate economic gain in the enactment of any law creating or maintaining a monopoly. The statesman must look wholly to polities for justification when he proposes to create or maintain monopoly values of any kind or character; and he must first demonstrate that anything can be politic which is not at the same time economic.

Under the assumption that enterprises which require franchises are to be left in private hands, we have shown the relation of franchise values to land values, and the effect of a distinctive tax upon franchise values. There is another view of this question, however, which still more clearly identifies franchise values with land values, and which shows that by a simple process the former may be transformed into the latter.

We have already shown, by way of illustration, that if

natural gas should be distributed by any city to its citizens at cost, in lieu of the distribution of artificial gas by a private company at a higher price, the saving in the cost of gas would be offset by a rise in ground rents. If now the same city should furnish this natural gas absolutely free to its citizens, bearing the cost of distribution itself, the result would be a still greater increase in ground rent, and consequently of the ground value, or selling price, of building lots. If, however, the city should increase its taxes upon building lots, irrespective of improvements, i. e., upon bare ground values, to such an extent as to absorb into the public treasury this increase in ground value, the amount of its revenues would be substantially the same as if it collected the cost of distribution from each user of gas and allowed its tax rate to remain as before. The matter of collection of this revenue would be greatly simplified, however, by the plan of furnishing free gas and raising the tax rate on ground values.

The same principle applies in case of any so-called public utility. Any city having a municipal water plant could abolish all water rates and collect the cost of the distribution of water by means of appropriating in increased taxes that ground value which would result as certainly as the sun would continue to shine. A city owning and operating its own street railways could give free transportation and collect the cost in taxes upon increased ground values. For if transportation were free, rents in the residence districts would rise until the saving in car fares was wholly absorbed, and ground values would rise accordingly. The State instead of private owners could

then appropriate the increase. This principle can be extended to include free transportation upon steam railroads owned and operated by the State; it points to the ultimate municipalization, with free use to the citizen, of all public utilities.

Attention is again called to the fact that free gas, free water, free transportation and the like, while increasing the value of superior land-forms, would not increase the value of labor-forms, either as satisforms or capital-forms, in the least degree. Indeed, such free utilities would tend to increase the production of all labor-forms, and so cheapen them. The importance of this distinction between the effects of cheaper public utilities upon land values and labor values, respectively, will be seen in the next chapter.

CHAPTER IV.

OF THE SOCIALIZATION OF VALUES.

A land tax levied in proportion to the rent of land * * * will fall wholly on the landlords. *David Ricardo.*

A tax on rent falls wholly on the landlord. There are no means by which he can shift the burden upon any one else. *John Stuart Mill.*

We have so far confined our discussion of the distribution of values to distribution among individuals, the share taken by the State for revenue having been mentioned only incidentally. The question of the socialization of values—commonly discussed under the head of taxation—has long been recognized as one of great importance. Political battles have waged about this question for centuries, and many wars and insurrections have risen from it, both directly and indirectly. The subject stands foremost in importance to-day with reference to the relation of every government to the property of its citizens. Political economists are at sea about it; statesmen are at odds about it; politicians make a great ado about it, not knowing or caring much one way or the other; while the people in general who pay the taxes feel, rather than know, that there is something radically wrong about it in present conditions. Just now there is a growing tendency in certain quarters to turn the whole matter over to a board or commission of "experts," which is the worst thing that could be done. This matter of the socialization of values about

which there is so much confusion is really one of the simplest things in the world. Any ordinary man can understand it, any set of ordinary men can correctly apply it to a whole nation. It is necessary simply to get away from the dogmatic statements and statistical jumbles of the experts, and to return to simple first principles in order to solve this vexing problem.

Man may satisfy his desires as an isolated individual by his own unaided efforts, or he may unite with his fellows in the expenditure of effort for the attainment of benefits which are reciprocal. This union of effort for reciprocal benefit may be exerted under two forms, coöperation in industry and competition in exchange. Both forms are now in vogue, subject to the artificial interference of monopolies and franchises which tend to destroy their reciprocal features.

For the sake of convenience, let us consider the case of a people having diversified industries and maintaining a general market in which is determined the current prices of all their products. From the association of these people in industry and exchange there arise certain utilities which can be acquired in no other way. Some of these utilities are capable of measurement in the market by means of exchange; others are immeasurable. All the measurable utilities are manifested in the form of values or their economic equivalents in net salvage. These values, considered with reference to their origin, in conditions unaffected by juridical laws, are of three kinds: labor values, capital values and land values; in conditions affected by juridical laws there are also franchise values and mo-

nopoly values, although the latter are wholly artificial and do not necessarily arise from the existence of the State. We shall now consider each of these values with reference to the advisability and the possibility of its socialization.

In the community which we are considering a man creates a certain labor-form, and takes it to the market for exchange. He finds the price of similar labor-forms fixed in advance of his coming, and he must sell, if at all, at the market price. This price is determined by the marginal buyers and sellers of such labor-forms in that market, and the tendency in a general unrestricted market is toward lowness of price. The larger the community the lower the price of labor-forms is likely to be. Association with his fellows has furnished each man with a fine opportunity to satisfy his desire for one labor-form by the creation and sale of another. In the course of the whole transaction he is enabled to satisfy his desires with the least possible disutility, the size of the market benefiting him as a buyer of other labor-forms, making up in net salvage his decrease in net value. But the fact remains that, as a seller, the market is against him, if only the value of his own labor-form is considered.

There is not a particle of the value of a labor-form to which the seller can point and say that the community, independent of the body politic called the State, has distinctively created or increased it. Nor can the State itself as a body politic lay claim to the distinctive creation or increase of any particle of such value. What has the State, as such, done with reference to this labor-form?

Say you that it has educated the producer in his youth and protected him and his property in his manhood, and so made it possible for him to create and exchange his labor-form with the least possible disutility? Very well. It does this for all its citizens, and the result, as we have seen in a former chapter, is that in any country where education is fostered and property well protected the market price of labor-forms is correspondingly low, and market price is the measure of value, expressed in terms of money. All of the benefits of government are manifested, not in the value of labor-forms, but in their cheapness.

We have been so prone, under the teachings of current Political Economy, to look upon the creation of values as the great desideratum of production that we are shocked to find that the government is constantly lending its aid to the cheapening of all labor products, individually considered. In the aggregate, of course, with reference to quantity, the production of labor-forms is vastly increased by good government. But with reference to labor values, a given quantity of product being considered, the rule is universal that the larger the market and the better the government, the lower the values of labor-forms as expressed in price. The benefits of civilization with reference to labor-forms are either immeasurable or are manifested in net salvage.

The same is true with reference to all capital values. We have shown the intimate relation between labor values and capital values, and have demonstrated the fact that in normal conditions these values are affected alike by

given phenomena, and that they tend to rise and fall together and from the same causes. Auxiliary capital-forms are subject to the same laws of the market as labor-forms, and the rate of interest with respect to pure capital-forms is determined by its marginal users, who also tend to be the marginal producers of labor-forms. The larger the community and the better the government, the lower the current rate of interest in normal conditions. And since good government tends to diminish all labor values and capital values, there is in neither of these values any social increment whatever which may be segregated and measured so as to form a natural or economic revenue for the State. Arbitrarily such values may be taken—arbitrarily they are taken—by the State, but such socialization of labor values and capital values is without any economic warrant whatsoever. If men are to be taxed in proportion to the revenue which they respectively enjoy under the protection of the State, as stated in one of the famous canons of Adam Smith, we must look elsewhere than to labor-forms and capital-forms for any value or values which reflect governmental benefits. So far as labor-forms and capital-forms are concerned such benefits are manifested in an increase of immeasurable utilities, and a corresponding decrease of those measurable utilities which constitute labor values and capital values.

The existence of a general market in a well ordered State gives to every member thereof a higher satisfaction of desire, a greater degree of enjoyment, physical and mental; but so far as this enjoyment has to do with labor-forms and capital-forms it is largely immeasurable. There is no means

by which labor values and capital values commensurate with such enjoyment and economically equivalent thereto can be measured. Indeed, in present conditions, although the canon of Adam Smith is theoretically the basis of taxation, the fact is that it is the necessities of the State, and not the amount of protection which it affords to labor-forms and capital-forms, which determines what tax shall be levied upon personal property each year. Whatever may be the doctrine of the schools, men are taxed nowadays because, upon the one hand, they are possessed of certain values, and upon the other hand, because the State needs a part of those values for revenue. No inquiry is made as to how those values were acquired, nor as to whether they have been created, increased, or diminished by the existence of the State. Diligent search is made to unearth values which are wholly devoid of social increment, while other values which are distinctly the result of associated effort in industry and exchange under the protection of the State, and which can not possibly be concealed, are passed by without special notice or consideration.

Although the benefits of association with reference to labor-forms and capital-forms are reflected in increased utility which is not reducible to a measurable form, the reverse is true with reference to land-forms. Labor-forms which sell at the same price, and have consequently the same value, in a given market, are produced upon land-forms of varying utility. The better situated or more fertile the land-form occupied by a given producer, the more net value he realizes by selling his product at the

market price. The greater the population within the territory tributary to a general market, the greater the advantage of occupying a superior land-form and the greater the competition for its possession.

The growth of the community merely as a community and irrespective of the organization called the State brings about a constant tendency toward the increase of land values. While the State itself, by maintaining a system of land tenure under which men may exclusively occupy particular land-forms and produce upon them in safety, adds still further to the values of all land-forms within its limits. Nor is this increase of land values exhibited only upon the producer's side of the market. Land-forms which are well suited to the needs of buyers and of ultimate consumers of labor-forms—such as desirable residence lots near a general market—also bear a high value. It is not necessary for us to repeat our former illustrations, especially those given in the chapters concerning "Ground Rent and Ground Value" and "Land Tenure," in order to show that all the measurable utilities, or benefits, of civilization, as well as of government, are reflected in land values.

In the last chapter we discussed the subject of franchise values, and showed that while they are essentially different from labor values and capital values they bear a close relation to land values. Franchise values have all the characteristics of land values and one more, viz., they distinctively result from the use of land-forms in businesses normally non-competitive. Land values distinctively result from the use of land-forms in businesses

normally competitive. Franchise values, like land values, have an economic basis in the use of superior land-forms, and, like them, are increased with the growth of the community and the security which results from the existence of government. The action of the State in granting franchises still further increases these values. Like land values franchise values have distinctively a social content and can not be traced to the labor-power of particular individuals. Like land values they are susceptible of taxation to the full extent of their present worth, and this without increasing the disutility, industrial or commercial, of any person. The present worth of land value is represented by ground value. The complete socialization of both ground values and franchise values is economically possible, feasible, and desirable, for by this means all labor values and capital values which have no social content may be left as the rewards of the individual skill and industry which produce and conserve them.

Monopoly values have no economic basis whatever. They are purely the result of the arbitrary action of the State, and can not exist in the hands of favored persons without adding to the disutility of all other persons affected thereby either as competing sellers or as buyers. They can not be socialized, because to the extent they are taxed the burden is shifted to consumers or the monopoly itself is destroyed. They ought not to be individualized, because they are not, to any extent, the result of individual skill or industry.

Although Adam Smith, in his canon of taxation, to which reference has already been made, used the word "revenue," it is apparent that by that word he meant

"benefits," and that what he really advocated was the taxation of men in proportion to the benefits which they respectively enjoy under the protection of the State. Many men who are taxed presumably pursuant to this canon have no revenue at all in the sense of current income from the things taxed. Such men are the owners of vacant lots and lands, moneys in bank, or of any kind of so-called unproductive property.

Even with this modification, however, this canon of taxation is incorrect. Behind both the revenues and the benefits which men enjoy stand the opportunities which make these revenues and benefits possible. Primarily man is possessed of labor-power, the exertion of which will satisfy his desires according to the external opportunities which are open to him and upon which his labor-power may be exerted. Upon the economic margin natural opportunities are equally open to all men, but above this margin this is not true. All men can not equally occupy and enjoy any superior land-form. The exclusive individual occupation and enjoyment of superior land-forms is imperative, both because of physical necessity, and in order to secure the best use of such land-forms; but such exclusive enjoyment in an orderly state of society can be maintained only by law.

Men can not be taxed according to all the natural opportunities which they enjoy, because opportunities which they enjoy equally or in common are immeasurable. On the other hand, the advantage of one natural opportunity over another is exactly measured by their difference in value. It is possible, therefore, to tax men according to

the differences of their respective enjoyment of natural opportunities under the law. Taxation upon this basis is morally right and economically correct. For however much men may differ in ability either to create labor-forms, or to use and conserve them as capital-forms, it is demanded by the plainest dictates of justice and of expediency that they have equal opportunities to produce and enjoy so far as external natural opportunities are concerned. Such equality of opportunity can only be acquired by the taxation of natural opportunities to the full extent of their present worth each year.

On the other hand, having produced in circumstances of equality of opportunity, each man is then entitled to his whole product, free from any claim of the State upon it by way of taxation or otherwise. The true canon of taxation expressed in general terms is this:

Men should be taxed only in proportion to the external natural opportunities which they exclusively enjoy or control under and by virtue of the laws of the State; and they should be taxed to the full extent of the present worth of such exclusive opportunities, annually computed.

All natural opportunities are enjoyed and controlled through the possession or control of land-forms, either under ordinary land tenure or under the grant of franchises. All the measurable benefits of association and government as well as of the exclusive possession of natural opportunities are manifested in ground values and franchise values, and in no other way. Therefore, technically and more briefly the true canon of taxation is as follows:

Men should be taxed only upon the ground values and

the public utility franchise values (if any) annually possessed by them, and should be taxed to the full extent thereof every year.

It may be urged against this canon of taxation that if an attempt was made to socialize ground values by means of levying all taxes thereon, the land owners would shift the burden to their tenants in increased rents and so be as well off as before. But this is impossible. When the value of property distinctively the result of labor-power is taxed the tax may be passed along from owner to user; but when mere legal privilege in the control of natural opportunities is taxed this is not true. A tax on the value of houses tends to discourage the building of houses and to make them scarce and consequently dear. But a tax upon the value of bare land-forms, irrespective of improvements, does not tend to make land-forms scarce. On the contrary it tends to discourage the holding of land-forms out of use, or for any purpose other than their best use, and consequently to increase the supply of land-forms open to immediate use and occupation for industrial and residence purposes. This tends to decrease the rental values of all land-forms and to benefit not only all tenants, but all prospective buyers of land-forms.

It must be remembered, also, that this new canon of taxation proposes to take *all* the ground value of a given land-form *every* year. An arbitrary increase in ground rent, if this were possible, would result in increased ground value, and this would simply increase the revenue of the State; it would not really benefit the land owner.

If it were possible for land owners as a class to exact

more ground rent from their tenants, they would do it now without waiting for the excuse of increased taxation. They now take in annual ground rentals all the return which results from the use of land-forms above the present economic margin. Nothing can operate to increase present rentals except it lowers the present margin. This the taxation of ground values can not do. By throwing all valuable land-forms into use it will necessarily raise the economic margin and to that extent will decrease ground rents. At the same time the entire exemption of all buildings and all building materials from taxation, direct and indirect, will encourage the building of houses, stores, and factories, relieve the present scarcity, and so diminish building rents (a form of interest) as well as ground rents themselves. In such circumstances it is impossible for any landlord to raise his ground rents arbitrarily, or in any manner shift the burden of taxation upon industry and exchange, when ground values are socialized by means of taxation.

CHAPTER V.

OF THE ECONOMIC IMPERATIVE.

We must make room at the Father's table for all his children.
Father Edward McGlynn.

We have now treated in a brief yet comprehensive manner all of the primary questions which pertain to Economic Science in both normal and abnormal conditions. All other questions which may arise are subsidiary to these, and may readily be classified and analyzed in the light of what has already been given. We have carried our analyses into the minutest details where details have been important, and have clearly defined every term having a distinctive economic meaning. In no case has a term been defined in one way and afterwards used in another; nor has any definition, statement, or argument been used which in any manner contradicts or even fails to support any other definition, statement or argument to be found in the text. Every phase of the subject touched upon has been considered in relation to all economic phenomena and all deductions have been pressed to their ultimate conclusions regardless of consequences. We are now prepared to say upon the authority of Economics and with the certitude of science that there is a criterion by which the policy of the State toward the institution of property under any system, actual or proposed, may be tested and correctly

determined. For the statesman there is an Economic Imperative. It is this:

The State must destroy all monopoly values; it must socialize all ground values and all public utility franchise values; it must individualize all labor values and capital values; and withal it must maintain an economic system which permits and protects the fullest coöperation in industry and the freest competition in exchange.

From an economic point of view this statement furnishes the State with its only reason for existence. It is the answer of Economic Science to the anarchist.* In any state of society where civilized men are entirely and equally free—and the anarchist's conception is based upon the ideas of civilization and of entire equal freedom—men will produce labor-forms according to their predilections and their environment, and will exchange them for the products of others. The denial of the right of exchange is contrary to the fundamental tenet of anarchism; such a denial is advocated only by the omnisocialist.

It follows, therefore, that the anarchist is bound by all the natural laws of the market and by all the results which naturally flow from those laws. In the absence of any government at all, i. e., in the absence of any body politic, labor values, capital values, and land values will inevitably accrue. And just as inevitably labor values and capital values will tend to fall, and land values will tend to rise. The value of land-forms then, as now, would be an unearned increment, and would have to be disposed of in one

* See Part I, page 19.

of two ways. If it were left in the hands of the fortunate individuals who occupied or owned the superior land-forms, they would thus secure a differential value created by others than themselves, and the law of equal freedom would be broken. No man can occupy or own a superior land-form to the exclusion of his fellows without infringing upon the equal freedom of all other men in the use of the earth—the storehouse of nature. And if it were sought to equalize the use of land-forms, this could be done only by some form of governmental action. In any community in which it is necessary for different persons to occupy and use land-forms of different degrees of desirability, either the law of equal freedom must be broken, or some sort of compact must be made and carried out by the community as a whole. Neither of these is consistent with anarchism, for the making and enforcement of such a compact necessarily involves a body politic.

If equality of opportunity is to be acquired at all in any community, it must be by collective or governmental action. The fact that governmental action has been in vogue for centuries without securing equality of opportunity in any state or nation gives to the anarchist a coign of vantage in argument from which it is not easy to dislodge him. Yet if it is within the power of government to accomplish a given result, the fact that it has neither accomplished such result nor seriously attempted to do so does not warrant the conclusion that all government should be abolished. Nor does the fact that certain acts or laws of the State sometimes or even continuously oppress and exploit those whom the State is presumed to pro-

tect show any necessity for the abolition of the State. It is only necessary to abolish the injustice and oppression.

If all land-forms were of equal desirability, there would be no land values and no distinctively economic reason for the existence of the State. In the absence of any juridical law, labor values and capital values would be distributed automatically by the laws of the market, except in so far as such laws should be interfered with by robbery, theft, or other forcible exploitation of one man by another. To prevent such forcible exploitation the State is indeed necessary, but its necessity in that behalf is civic, not economic. The economic function of the State is to prevent the exploitation of one man by another, not by force, but by the monopolization of natural opportunities; that is, it is the economic function of the State to socialize natural opportunities. The only way in which this can be done with justice to all and without arbitrarily and unequally abridging the freedom of the individual members of the State is by socializing the distinctive differential values of these opportunities. As was shown in a former chapter, this may be done by the imposition and collection of an annual tax to the amount of the full selling value of all land-forms and franchises. The selling value of land-forms and franchises, it will be remembered, would then be less than their annual rent or income; they would sell for the present worth of the ground rent or income, as the case might be, computed at the current rate of interest.

Therefore, the economic function of the State resolves itself into the annual socialization, by means of taxation

and public expenditure, of all ground values, and of all franchise values, if public utilities are permitted to remain in private hands. Its civic function is the protection of the individual citizen in his freedom to coöperate or not, as he sees fit, in industry, and to compete or not, as he sees fit, in exchange. But whether the individual chooses to coöperate or to work out his own salvation in industry, or to compete or not to compete in exchange, the State, in the exercise of its civic function, must see to it that he interferes not with the freedom of others to coöperate and compete as they will, and that he exploits not the earnings of any man either by force or by fraud.

To any existing institution or to any proposed change of economic policy, therefore, both the student and the statesman may apply these unfailing tests:

Does it tend to destroy, or to create and maintain monopoly values? If to destroy them, it is to be upheld; if to create or maintain them, it is to be condemned.

Does it tend to socialize all ground values and all public utility franchise values? If so, it is to be upheld; if not, it is to be condemned.

Does it tend to individualize all labor values and capital values? If so, it is to be upheld; if not, it is to be condemned.

Does it tend to permit and protect the fullest coöperation in industry? If so, it is to be upheld; if not, it is to be condemned.

Does it tend to permit and protect the freest competition in exchange? If so, it is to be upheld; if not, it is to be condemned.

What could be more simple than these tests? Yet the application of them to practical affairs is all that stands between men and economic freedom—equal freedom not only of person, but of opportunity. It is all that stands between those who produce and the whole product which distinctively is theirs.

In the light of these simple tests what becomes of the insistent demand for government by experts? These tests are so simple that the people should soon learn to govern themselves in fact as well as in name. If they would be masters of themselves and control their own destinies, let them but heed and enforce the economic imperative:

The State must destroy all monopoly values; it must socialize all ground values and public utility franchise values; it must individualize all labor values and capital values; and withal it must maintain an economic system which permits and protects the fullest coöperation in industry and the freest competition in exchange!

CHAPTER VI.

OF THE ESTABLISHED ORDER.

Wooley Foster has a hen,
Cockle button, cockle ben;
She lays eggs for gentlemen—
But none for Wooley Foster.

Mother Goose Melodies.

When Adam delved and Eve span,
Who was then the gentleman?

Popular couplet, fourteenth century.

Judged by the economic imperative, the existing economic system is condemned upon every hand. It grants and fosters many monopolies, and thus creates and maintains monopoly values; it fails to socialize either ground values or public utility franchise values, leaving them almost wholly in private hands to the upbuilding of great private fortunes, economically unearned by the individual holders; it fails to individualize either labor values or capital values, since nearly all of the revenues of the State are drawn therefrom; and it neither permits nor protects full coöperation in industry, nor free competition in exchange.

In the established order the normal economic margin is unknown. Land-form after land-form is held out of use, or is not put to its best use, and by these means the rent line is forced down until it lies far below the normal margin. The marginal pairs that determine prices in all

branches of industry and trade are men who produce upon margins artificially depressed so that market price is not the true index, as it should be, of normal economic conditions. In industries not in themselves the beneficiaries of some monopoly, e. g., the business of the working farmer, the market price is forced abnormally low, both because the marginal buyer produces upon a low plane and is poor, and because the marginal seller also produces upon a low plane and can not stand out for a higher price.

In industries which are the beneficiaries of one or more monopolies, simple, complex or compound, the seller is made abnormally independent of the laws of the market and can ignore the normal price; while the buyer, who is usually engaged in an industry not favored by any monopoly, is helpless to stand out for the normal price, and must pay what is asked, or do without what he desires. The only thing which induces the monopolist to concede anything in the matter of price within the range of his control is the fact that he may gain more by increased sales at a decreased net value on each sale. But even then the price which he consents to take is abnormal. It is not determined by a normally marginal pair, but by the self-interest of the monopolist himself.

From the arbitrary lowering of the economic margin upon the one hand and the existence of industrial and trade monopolies upon the other, it necessarily follows that all prices in present conditions are abnormal. They are too low in industries not favored by monopolies or franchises, and too high in those industries which are so favored. And yet the working farmer, who is peculiarly

the victim of both these abnormal conditions, is depended upon by its beneficiaries as the most loyal defender of the established order. The farmer does not see that by the artificial depression of the economic margin he is forced to pay much more than the normal price when he buys a farm, and much more than the normal rent when he tills a farm as a tenant. Nor does he see that as a seller of products he has no monopoly whatever, but must compete with all others of his class in the markets of the world; while the price of practically everything which he buys is affected by some form of differential privilege.

Every wage earner, every man in any vocation whatever who is dependent upon toil, physical or mental, for a livelihood is affected in the same manner as the working farmer by the artificial depression of the margin and the existence of monopolies. The abnormal depression of the margin forces him to pay a greatly increased price for a home, if he is fortunate enough to be able to purchase one, or to pay a greatly increased rent, if he can not or does not buy. He must either invest what to him is a small fortune in a home, or he must continually pay tribute to a landlord in ground rent. For so far as ground rent paid to a private owner in present conditions is concerned it is nothing more nor less than the payment by one man to another no better than himself of tribute for the mere privilege of living upon the earth. If the rent payer stays upon the earth at all, he must stay in some particular place at any given time. And unless he betakes himself to the desert or lives among savages, he can not find a place anywhere where he can even pitch a tent without the consent

of a fellow creature. In a state of savagery he might meet a fellowman, armed with a club, who would dispute with him the right to occupy a particular land-form unless he gave up half his average income from the chase for the privilege. In a state of civilization he meets a fellowman, armed with a statute, who makes of him a similar demand with regard to his income every year, and he is obliged to succumb. Verily, our boasted civilization in some respects is simply a refinement of savagery.

When the wage earner buys either the necessities or the luxuries of life he usually pays tribute to a monopolist. In this respect he is no better off than the working farmer. If of nothing else, he, like the farmer, is the victim of a so-called protective tariff which fixes the price of all protected articles above the price which, in normal conditions, would be fixed by the marginal pair. When the wage earner seeks employment he must compete in price with men who are willing to accept in the service of others just what they could earn by self-employment upon an abnormally depressed and unproductive margin.

The necessities of the marginal laborer are of greater importance in the fixing of wages than is the parsimony of the employer. For however much an employer may harden his heart and attempt to oppress his employes, it is only the necessities of the latter, or of some other workmen below them who can be induced to take their places, that give to the employer an opportunity to manifest and satisfy his selfish greed. It is this fact which leads the members of a labor union not only to antagonize every interest of an employer while they are upon a strike, but to look

upon one of their own class who refuses to strike or who takes the place of a striker—a “scab” workingman—with infinite scorn and contempt, and oftentimes with unrelenting hate. If wage earners as a class are permanently to better their condition, they must bring about the restoration of the normal economic margin upon the one hand, and the destruction of monopoly upon the other. By united action they can do this, and the more readily, if the working farmers and all other men engaged in business enterprises not specially favored by the State should join them.

Every man engaged in a business enterprise, great or small, which is not specially favored by some form of differential privilege is injuriously affected as a business man both by the abnormal depression of the economic margin and by the existence of differential privileges in the hands of others. If a business man is so fortunate as to own the land-forms upon which his business is conducted, he is compelled in purchasing them to pay much more than their normal price, and to keep invested in them a large sum for which there is no current return, and which detracts by just so much from his investment in the business proper. If he is a tenant, his ground rent is all that he can bear and constantly tends to exhaust the earnings of his business. On the other hand, a monopoly in the hands of a competitor means a relative loss to him and may encompass his ruin; while as a consumer he is subjected to all the evils which befall the farmer and the artisan from the existence of different forms of monopoly in the hands of those from whom he must buy. All of the

laws of the normal market are based upon the existence of a normal economic margin and of a normal marginal pair. The established order makes the existence of both of these impossible, and nothing short of the complete alteration of the *status quo* in so far as it interferes with these prime requisites of economic conditions can cure the evils of which the masses complain, but which they do not fully understand.

Standard Political Economy, as the exponent of the established order, originally held that the value of anything is determined by the cost of its production. It requires only a casual view of this theory to disclose the fact that it is not universally true. Many things are put upon the market and sold at less than the cost of production. To make the theory cover numerous exceptions of this kind it was next held that it is not the cost of the original production of any thing which determines its value, but the cost of its reproduction (or rather, the cost of its duplication) at the present time. But neither the cost-of-production theory nor the cost-of-reproduction theory of value applies to land values, since land-forms are neither produced nor reproduced by the hand of man.

There is another aspect, moreover, in which the theories of standard political economists concerning value fail to conform to the most obvious facts of the market. If the value of an article is determined by either the cost of its production or the cost of present reproduction, it must necessarily follow that the value of a composite article is at least equal to the sum of the costs of its various component parts. But this is not always true. It is not the

cost, as exhibited in market price, of the labor and materials which enter into a finished product which determines the price at which it may be sold. This price is fixed by those persons who constitute the marginal pair with reference to this particular article, and especially by the marginal buyer, who may neither know nor care any thing whatever about the cost of the constituent parts. On the contrary, it is the price of the finished article as determined by the marginal pair which determines the prices at which the component parts must be sold in order to leave a net value to the producer of the completed article, and so to assure its continued production. For unless the necessary parts can be purchased at certain prices the manufacture of the finished article must cease.

Suppose, now, that in the case of a composite article for which there is a sufficient demand to justify its continued production in normal conditions, there falls into the hands of one person, firm or corporation, a monopoly as to the manufacture or sale of one of the parts or processes necessary to produce such article. Then the possessor of such a monopoly can arbitrarily determine whether or not the composite article shall further be produced at all. He can despoil the hitherto successful producer to the last cent which can be spared not only of the net value from that part of the product upon which the monopoly is held, but from the entire business, since the monopolist may at any time stop the supply of a necessary factor. In case the monopolist should resort to this extremity, he not only would ruin the business of the manufacturer of this particular article, but he would deprive the sellers of all the

other constituent parts of such article of a customer upon whom, in normal conditions, they could safely rely. Thus the evil effects of monopoly do not fall upon consumers alone, but upon producers also, and such effects tend to spread in an ever widening circle throughout the entire field of industry and exchange.

It must be remembered that the power of the monopolist over production is not confined to his relations with one manufacturer but with many. Each producer whom he despoils of normal net values is unable by just so much to extend his business, and so to extend the market for the labor-power and products of others. One evil effect propagates another until, as in present conditions, the power of business success or failure is held by one man over many men just as certainly and with nearly as disastrous results as the power of life and death was held by the nobility of ancient times over their chattel slaves. The evil effects of the established order we see and feel day by day. The causes of such conditions are obscured by the teachings of standard Political Economy, based as it is upon a partially false and wholly inadequate theory of value.

The established order recognizes, in a limited way, the beneficence of the market; but not sufficiently to make the market absolutely free. It recognizes, in a limited way, the great truth of Economics that all men seek to satisfy their desires with the least exertion; but at the same time it puts it in the power of some men to interfere with the exertion by other men of labor-power along the lines of least resistance; it raises its revenues in such manner as seriously and unnecessarily to interfere with the laws of

the normal market; and it allows some men to appropriate, own and control all of the desirable land-forms which other men must use in order to satisfy their desires at all.

The established order fails to realize the beneficence of the market in bringing about the socialization of utility. The social gain resulting from the fact that in a general market, open to free competition, all consumers are enabled to satisfy their desires at the price fixed by the marginal pair is ignored by standard Political Economy. In the discussions of this cult, net salvage is also practically ignored. Net value is the one desideratum—therefore, get net value. This is its teaching. It does not discriminate as to the origin of values. The personal appropriation of a value created by labor-power has no higher sanction in its teachings than the personal appropriation of a value which attaches to a vacant land-form merely because of the growth and productive activity of the community as a whole and entirely irrespective of any effort or expenditure, past or present, of the man who claims such value as his own.

In the field of finance, the practices of the established order are not in harmony with the demands of the economic imperative. In present conditions we have a standard of value which recognizes and reflects but one of the three elemental units of disutility. The disutilities of space and time are practically ignored. Accompanying this defective standard of value we have a medium of exchange based upon a barter metal instead of upon governmental credit-forms. The paper money issued by the national government consists of current debit-forms re-

deemable in the gold of barbaric barter instead of current credit-forms redeemable in the payment of the taxes of civilized society.

In the matter of taxation the established order violates all the requirements not only of the economic imperative, but also of the true canon of taxation. In present conditions taxes are levied in every conceivable way upon all conceivable kinds of property and property values, and even upon men themselves. The capitation, or poll, tax is an arbitrary tax upon men at so much a head, rich or poor, strong or feeble, young or old, after reaching man's estate. Such a tax is always unpopular and in many places has passed from use.

The revenue of our national government is largely derived from tariff duties levied upon imports. Such a system of revenue creates monopoly values; it interferes with the beneficent functions of the normally marginal pairs; it wrongfully permits the individualization of the natural revenues of the State, viz., ground values and the values of public utilities; it wrongfully socializes those values which should be wholly left to individuals, viz., labor values and capital values, for all tariffs are levied upon these alone; it hampers the majority of those engaged in industry and hinders free competition in exchange.

The tariff system as a means of raising revenue does not conform to any recognized canon of taxation. It does not purport to tax men according to their ability, whether this be ability to produce or ability to pay; it does not tax men in proportion to the revenues respectively enjoyed by them under the protection of the State, as Adam Smith

in his canon said, nor according to the benefits respectively enjoyed by them under the protection of the State, as he doubtless meant; and it goes without saying that the tariff system is contrary to every element of the true canon of taxation as we have stated it heretofore.

It is doubtful if a tariff system could long survive in any enlightened country were it not for the fact that it is reinforced by the doctrine of so-called protection to home industry. This doctrine, like the tariff system which it supports, has no economic basis whatever. Like the tariff, it violates every condition of the economic imperative, and conforms to no canon of taxation. It is simply an appeal to selfishness. To the few its selfish appeal is true; to the many it is false. A protective tariff has its beneficiaries; it is a differential privilege by virtue of which some men acquire and retain differential net values through the shutting out, in their particular businesses, of normal competition. These men are truly protected, if a differential privilege may be called protection.

The laboring man, it is said, is protected from the pauper labor of Europe. Yet wages in America are constantly tending to the European standard. If the American laborer would successfully combat this tendency and improve his condition, let him seek protection from laws which give differential privileges to some of his fellow countrymen, and not allow himself to be deluded with the idea that he needs protection from other laborers much worse off than himself and 3,000 miles away. After all it is better to compete with the products of foreign laborers and allow the laborers themselves to remain in Europe,

than to force them to come to America and, with their low standard of living, to compete with the American laborer upon his own ground. Selfishness may easily over-reach itself.

The selfishness involved in the protective system has also a national aspect. It has long been thought that in order for one nation to become rich other nations must become poor. This sentiment has often been expressed, and is often followed, but never with success. For twenty years Cato, the censor, after speaking to the Roman senate upon any subject, did not resume his seat without saying, "It is my opinion, fathers, that Carthage must be destroyed!" And in the destruction of Carthage as a competitor began the economic downfall of Rome. Free from commercial competition she no longer depended upon the laws of industry and trade for her sustenance, but became a plunderer of nations, and so was lost to herself and to the world.

As with Rome, so with all other nations which seek to prosper at the expense of competing nations by the elimination either of the nations themselves or of competition with them to their detriment. It is an inexorable law of the physical world that action and reaction are equal and opposite in direction, and the same is true in the world of industry and exchange. Any limitation placed by one nation upon trade to the detriment of another must necessarily react upon itself to the same degree. In our study of the market we found that in a fair exchange both buyer and seller may gain, and that in normal conditions a gain either in net salvage or in net value inures

to them both. In international trade the same principle applies, and all trade restrictions are as much to be deplored between nations as between individuals. The doctrines of the standard economists concerning favorable and unfavorable balances between nations are economically without foundation. A nation which imports more than it exports is not injured by its foreign trade, but is benefited by it. Any attempt upon its part to limit its importations by tariff laws or otherwise will certainly react upon itself. In building a nation the economic law of gravity can not be violated or ignored any more than can the law of gravity of the physical world in building a tower. The doctrines of so-called favorable and unfavorable balances of trade are based upon the erroneous theory of the omnisocialists that in every exchange what one party gains another must necessarily lose.

In the last analysis there are but two classes of things which may be taxed: labor-power and its products (including capital-forms) upon the one hand, and land-forms with their natural opportunities, upon the other. Under a system of private ownership of property such as the established order maintains, a tax upon the former class of things is a direct tax upon labor-power; upon the latter class, it is a tax upon privilege. In present conditions, nearly all taxes fall directly or indirectly upon labor-power.

The established order is based ostensibly upon the competitive system, and in former times competition had relatively free play. Men then expended their energies in

cheapening production so as to undersell their competitors, and in the play and interplay of economic forces the general public was provided with satisfactions substantially at their marginal cost. There was a large socialization of utility. But in present conditions, the effort is not so much to undersell the competitor as to eliminate him and his wares from the market. What is sought is not simply a cheaper process of production, but a differential privilege which, in spite of the cheaper process, will allow the maintenance of the former price and even an increase of price. Those who are able to acquire differential privileges in the form of monopolies or franchises, or both, are freed from competition, or at least from its full force, while those who have no such privileges are driven to a more desperate strife among themselves, the result being in many cases literally a life and death struggle. But let it be borne in mind that such conditions are not the fruits of competition, but of the lack of competition engendered by differential privileges granted to some persons by the State and enjoyed by them at the expense of their business competitors and of the general public, under the sanction of the law.

From an economic point of view the established order is an incongruous mixture. Its laws purposely interfere with the natural laws of the market; with reference to the institution of property, its governmentalism is so inequitable that it incites anarchy; while its individualism is so indefinite and its socialism so sporadic that its lawmakers are without economic guidance, and its statesmen

without economic conceptions beyond the maintenance of the *status quo*.

The **Established Order** is that incongruous admixture of indefinite individualism and sporadic socialism which seeks substantially to maintain the *status quo* with reference to the institution of property.

CHAPTER VII.

OF OMNISOCIALISM.

If false, let them be rejected; but no one has a right to entertain a prejudice against them merely because they are out of the common road.

David Hume.

Omnisocialism contemplates a complete readjustment of society, with a more just and equitable distribution not only of property, but also of the tasks by which property is produced. It condemns the established order in unmeasured terms, and sets itself especially against what it calls the capitalistic system of production. It condemns competition without reserve, and avers that commercialism is without a redeeming feature. It alleges that the private ownership of the means of production and distribution, with its necessary concomitant, the wage system, is but a means for the exploitation of the labor of the many for the benefit of a favored few. It proposes to abolish this exploitation by destroying private capitalism, private commercialism, and the private employment of one man by another. It proposes to abolish the payment of wages, the payment of rent and the payment of interest; the making of private profit; the buying and selling of property as between individuals, and the use of money as a medium of private exchange. Under omnisocialism all productive land-forms and all capital-forms would belong to the State; only satisforms and non-productive land-

forms could become private property, and these only by purchase from the State.

The advocates of omnisocialism are adepts in pointing out the weaknesses and inconsistencies of the established order; they are quick to condemn its abuses, and are sincere in their attempts to correct them. Their ideals are very high. In their generalizations regarding the system which they would substitute for the established order they are reasonably clear and are substantially of one accord. In the elaboration of a practical working plan, however, there is much confusion among them, and it is difficult to find any two of these advocates who agree upon any considerable number of details. In abolishing the open market they destroy the natural basis of all economic phenomena and put their proposed system at once upon an artificial footing. There is no economic reason why men, in normal conditions, should not exchange the products of their labor, and heretofore the commercial exchanges of every nation have furnished a fair index to its civilization; and, so far as they have been unhampered, commercial exchanges have furnished an automatic system for the distribution of labor products. But under omnisocialism a means of distribution must be found other than through the competition of the market.

According to writers of repute, if omnisocialism were substituted for the established order, all workers would be employed in the public service and would be paid in labor certificates, or labor-time checks, showing the number of hours, days, weeks or months of service performed.

In order to prevent "soldiering," a worker's checks would

not be paid to him on the basis of the time actually put in by him in performing a given task or in achieving a given result, but on the basis of the time necessarily spent by the average worker in that behalf. This necessary average time is called the time socially necessary to achieve the given result, and the checks proposed to be given in payment are said to represent social labor-time. These labor-time checks would be legal tender at the public stores for labor-forms of every kind. The price of a given labor-form would be marked upon it at the store according to the social labor-time requisite to its production. The purchaser would deliver to the public store clerk such part of his labor-time checks as were equivalent to the labor-time represented by the price of the labor-form purchased. In this way labor-forms would sell, it is said, at the labor cost of their production plus a certain fixed percentage for the payment of a proportional share of necessary public expenditures. In this method all individual competition and all private profits would be eliminated. Instead of maintaining an economic system which permits and protects full and voluntary coöperation in industry and free and voluntary competition in exchange, omnisocialism would prevent, directly or indirectly, the voluntary co-operation of individuals in private industry, and would prevent any and all competition in exchange.

In the program of omnisocialism there is no recognition of the economic margin; there is no possibility of a marginal pair. Value as we have defined it, and as we now commonly use the term, would be unknown. Price would purport to represent only the cost of production plus a

proportional share of the cost of maintaining the State; in fact, it would represent only the estimate of some person or committee as to the cost of production, for in the absence of a market which automatically measures disutilities, any precise or just measurement of such cost is impossible.

The working plan of omnisocialism makes no positive distinction between the bounties of nature and the products of labor. It utterly fails to recognize the peculiar significance of the land-form in the economy of the State. Land-forms are not produced by labor-power, and so can have no labor cost. They can not be sold at the cost of production nor rented upon that basis. Nor can all men occupy land-forms of equal desirability under socialism any more than under the established order. Omnisocialism takes no account of land values. It ignores ground rent and affords no measurement of ground value. The parcelling out of land-forms is left to take care of itself under some form of arbitrary selection and apportionment to be made by those in authority.

Inasmuch as the State would be the sole proprietor in all forms of industry and exchange and the sole owner of all the means of production, including land-forms put to productive uses, the question of the relative desirability of such land-forms could be settled without reference to any price put upon them. No private person would want to buy a productive land-form, and he could not do so, if he would. But with land-forms used for residence purposes it would be different. Even though all houses might be equally well constructed and might in every way be

equally desirable in themselves, they could not be equally well situated. All houses could not front upon the public parks, nor could all the streets be boulevards devoted to pleasure riding. Either the more desirable locations would be appropriated by those in power, or they would be parceled out in some arbitrary manner, or they would be rented under a competitive system. It is one of the cardinal doctrines of omnisocialism, however, that rent shall be abolished. Some writers are willing to admit that enough rent might be accepted by the State to keep the respective premises in repair. But if competition should arise for a given property in which a hundred persons should be willing to pay such a rent, how should the matter be settled among them, if their bids all exceeded the sum necessary for repairs?

Again, if the State should accept rent in any case, it could only be paid in labor, labor-forms or labor-time checks. As the State would already be entitled to the labor of every man and to all labor-forms when first produced, the collection of any amount of rent in labor or labor-forms would be but the State receiving its own. While if it were attempted to collect rent in the form of labor-time checks the State would be compelled in some way to fix the rental price of land-forms in terms of labor-time checks, although land-forms can not be produced by labor-power. And after the State had received these time checks what could it do with them? It would have no need of them for revenue, since all labor-forms when first produced would be its property, and could be devoted to public uses so far as necessary instead of being offered for sale.

It may be said that matters of this kind might be equalized by putting the poorest houses upon the best land-forms and *vice versa*, but this is so contrary to human desire and to the fitness of things that it would scarcely be adopted.

Judged by the economic imperative, omnisocialism is entirely without warrant. Under this system the State, instead of granting monopolies to certain of its citizens, would itself become a giant monopolist and, as such, would have absolute control over all the means of life. The modicum of private ownership allowed, being limited wholly to satisforms and non-productive land-forms, would be a mockery to a people nominally free. There would be no possibility of self-employment. The fact that the opportunities for self-employment are fast disappearing in the established order is one of the greatest factors working toward the downfall of the present economic régime; and yet omnisocialism, with its absolute denial of self-employment in production is advocated as the remedy. The established order is doomed and will be superseded by a form of systemic socialism—there is no other recourse except anarchy—but if men are to be economically free, the established order must necessarily be superseded by socialism with an open door. The individual must be left free to employ himself and to do as he will with the fruits of his labor, or he will become a more abject slave under socialism than he is under the present order. It will avail him nothing to change one master for another, even though the latter should be the State, and even though he should be nominally free. The greatest despotism may exist under

a republican form of government, and the most abject slavery may exist under socialism in the absence of an open door—in the absence of the right and the opportunity of self-employment and of exchange.

American socialism of the unlimited type is largely based upon the teachings of Karl Marx. His arraignment of the established order and his advocacy of socialism as a remedy both follow from a critical study of the English factory system of the middle of the last century. In 1836 N. W. Senior, a professor of Political Economy at Oxford, gave to the world that remarkable defense of the established order contained in his theory of the "last hour." The average working day in the cotton factories at Manchester at that time was eleven and a half hours, this being the maximum then allowed by law. Senior attempted to demonstrate that all the net profit of the manufacturer was obtained from the work performed in the last hour of the day, all of the work of the other hours going to pay wages and other current expenses, to reimburse the original outlay, and to recoup losses from deterioration. He argued, therefore, if the agitation for a shorter working day then rife in England should succeed and the working day be reduced to ten hours, as was then proposed, not only the net profit, but even the gross profit of manufacturing would be lost and all manufacturing must necessarily cease. We need not examine the so-called analysis by which he reached this startling conclusion inasmuch as the reduction of the hours of labor to ten hours did not produce a cessation of all manufacturing as he predicted; nor has the eight-hours day now in vogue in many lines of

work produced any such effect. This doctrine of the "last hour" is mentioned because it gave direction to the inquiry of Karl Marx thirty years later.

Marx' system of socialism is based upon the claim made by him that of the labor performed each day by an employe, a certain amount, which may be indicated by the line A———B, is necessary to provide the laborer with a bare living and to sustain those immediately dependent upon him for support. The remainder of the day's labor, which may be indicated by continuing the line aforesaid from B to C, thus, A———B———C, Marx calls the surplus product, or surplus value, of the day's labor. This surplus product he claims should, in the nature of things, go to the laborer, and that he alone should enjoy the whole product. He further maintains that in the early stage of manufacture when things were really "made by hand," or by simple tools in the hands of workers who produced on their own account and owned their own tools, the entire product did belong to the actual producer, and was actually enjoyed by him. In those days every person employed in industry or exchange, after serving such an apprenticeship as would fit him for the business, might set up for himself and in his turn might become an employer of apprentices. Manufacture was then carried on in the home or in a small shop where master and man worked side by side at the same tasks and on a plane of substantial equality. The deserving apprentice might well hope to marry the daughter of his employer and ultimately to succeed to the business which he had helped to create.

Such were the days before the introduction of the factory system.

With the advent and development of this system, however, all was changed. The factory superseded the home work and eliminated the small shop. The machine, intricate and expensive, took the place of the simple and inexpensive tool. The employer was also the owner of the machinery, and instead of working with his men, set a foreman over them and secluded himself in a counting room or an office. He no longer lived among his laborers nor sheltered his apprentices beneath his roof. Between the worthy apprentice and the daughter of the employer a great gulf became fixed so that he might not, with propriety, even speak to her. Although the surplus product became more and more enlarged, only that part indicated by the line A———B was received and enjoyed by the man whose labor-power was necessary to bring the entire product into being.

It is no longer necessary to use the past tense in describing conditions which have grown up under the factory system. To-day laboring men, as a class, in all vocations receive and enjoy but a bare living according to the accepted standards of life in their respective communities. In every country with increase of population and the concentration of the means of life in the hands of a few, the standard of living has been or is being forced down to a point which will barely sustain life and enough physical strength to enable the laborers, as a class, to continue to exist. The line A———B tends everywhere to become shorter and shorter, while the line B———C

in the entire line A———B———C tends all the while to become, relatively at least, longer and longer.

That the term *relatively* is used advisedly in this connection may be seen from the following illustration: Suppose that the entire line A———C represents the full product of a day's labor at any given time and place; and suppose further that the length of the working day at such time is twelve hours, and that six hours' labor each day is necessary to sustain the laborer and his dependents according to the accepted standard, and that he receives one-half of the product as his wages. Suppose now that in the course of five years from such date the competition of laborers from other lands where a lower standard of living has long existed has forced down the wages and, consequently, the standard, until both are represented by the product of five hours' labor. Then the line which at first was A———B———C is changed to A———B———C, the part of the product going to laborer and capitalist, respectively, changing from the ratio of 6 to 6 to the ratio of 5 to 7. And suppose, further, that by combination, as members of a labor union, the workers have compelled the granting of a ten-hours day at the expiration of the five years. The net result is that although the laborers are no worse off relatively, both laborer and employer receiving the product of five hours' labor, yet the laborer now lives upon five-sixths of his former compensation; and if wages were forced down so that the ratio for a twelve-hours day was 4 to 8, the reduc-

tion of the number of working hours from twelve to ten would leave the new ratio 4 to 6 which would leave the worker not only absolutely, but relatively worse off than at first when the ratio was 6 to 6.

The teaching of Karl Marx, therefore, is to the effect that the laborer is exploited by the capitalist of all of the product of his labor except a bare living according to the accepted standard of his country and generation; that by simply shortening the hours of labor no permanent benefit will result to the laborers; and that since, in his view, the laborer is entitled to all that he produces instead of but a part of it, the only complete remedy is to stop the possibility of the exploitation by one man of the labor-power of another. This, he contends, can be done only by the complete destruction of the present commercial, or competitive system, and by the substitution for it of a commonwealth based entirely upon coöperative effort. Under the established order, say Marx and his followers, those who produce the foodstuffs of the world eat but little of it; those who build mansions live in hovels; those who make fine garments wear the cheapest clothing; the families of those who mine coal are scarcely able to buy it, even at cost at the mouth of the mine; and socialists have the support of one of the world's great captains of industry in saying that, generally speaking, the man who works never gets rich.

The arraignment of the established order by the socialists is terrible, and terrible 'tis, 'tis mainly true. But the remedy! Does not the remedy proposed by the omnisocialist give a counter-shock that should make us pause?

Granted that the evils of the established order are great—as great as they are portrayed; granted further that these evils are fundamental, and that fundamental changes are necessary to their removal; granting all this and more, is it necessary that society shall completely abandon commerce which has carried such civilization as we have attained to the uttermost parts of the earth; that it shall entirely take away from the individual the limited freedom which he now enjoys to produce as he will and to exchange where he may; that it shall become the sole dispenser of all the means of life, the ultimate determiner of every man's employment, and the absolute controller of the destiny of every human being? Admitting that coöperation and not destructive competition should form the basis of social life, is it not true that under omnisocialism the form which the coöperation of the individual would take would be compulsory from the cradle to the grave? And is it not true, also, that coöperation, the form and extent of which depends ultimately upon the will of another, or even upon the will of the majority, is but slavery in disguise?

Were it not for that phase of the market demonstrated in the foregoing pages by virtue of which, in normal conditions, an exchange of products results in net salvage to the buyer as well as in net value to the seller, the wholesale condemnation by the omnisocialist of competition would be justified. We have seen that in every economic exchange the utility of the thing sold and the utility of the price thereof are both measured at the point of exchange. The utility lying between the point of positive

utility and the point of exchange being the gain of the seller, and that lying between the point of exchange and the point of alternative cost being the saving of the buyer. This gain upon the one hand and saving upon the other are measured by the same unit, and are interconvertible in terms of money. In an exchange between men having equal opportunities to produce and equal freedom to trade there can be no economic exploitation. And in circumstances where a laborer has an unrestricted opportunity of self-employment upon a normal economic margin, no employer can despoil him of any part of the product which is distinctively his.

This is the answer of Economic Science to the omnisoocialist. His perception of present day evils is unexcelled; his purpose is beyond reproach; his ideals are above criticism; but for want of sufficient analysis of the laws of the market he confuses monopoly with capital, and differential privilege with competition. He consequently mistakes the remedy. Bisocialism, on the other hand, furnishes a remedy which, by destroying monopoly, and socializing all those things which under private ownership and control give rise to differential privileges, affords equality of opportunity, the retention of the market, and the extension, not the destruction, of individual freedom.

Notwithstanding the defects in both the theory and the working plan of omnisocialism, its ideals are so high that any propagation of its doctrines, or any attempt to put them into operation, must result in good. The working plan which it would necessarily evolve would doubtless be a marked improvement over that incongruous embodi-

ment of truth and error maintained by the established order. And best of all, the recognition of its defects as they would inevitably appear could not turn the tide of human progress back to the present system, but would necessarily lead to the substitution of the less drastic changes and more efficient working plan proposed by bisocialism.

From the discussions of this chapter we may formulate the following definition of omnisocialism:

Omnisocialism is that form of systemic socialism which seeks completely to overthrow the existing systems of industry and exchange, to establish and maintain in their stead a coöperative system of production under exclusive State ownership, management and control, and, so far as may be necessary to that end, to socialize all forms of property.

CHAPTER VIII.

OF BISOCIALISM.

Common friend to you and me,
Nature's gifts to all are free.

Robert Burns.

The man who monopolizes land monopolizes the concentrated values of common progress. If these land values were taken by the public and expended for the common benefit, all progress, past and present, would inure to the benefit of the whole people.

John Z. White.

Judged by the economic imperative, bisocialism is the true remedy for all the economic evils of the established order. It will destroy all monopoly values; socialize all ground values and all public utility franchise values; individualize all labor values and all capital values, and it will create and maintain an economic system which will permit the fullest coöperation in industry and the freest competition in exchange.

It must be remembered that the term *bisocialism* does not imply the creation and maintenance of a little socialism here and there throughout our present economic system, such as the postal system and life-saving service. Such isolated and unrelated socialistic features are instances of what we have called sporadic socialism. Under bisocialism such features will be retained and extended, but they will become material parts of a *system* wholly socialistic as far as it goes. The system itself will be limited

by clear lines of demarcation, but within the scope of the system there will be no bounds placed upon the socialistic features. Those things which are socialized at all will be completely socialized, while those which are left to individual control will be so completely individualized that they will not be called upon even to contribute to the revenues of the State.

Bisocialism is not an arbitrary and experimental scheme for the solution of industrial problems. Its working plan is not without an economic basis. It recognizes both coöperation and competition as beneficent agents of progress, but it makes opportunities for the former complete; for the latter, free. It does not destroy the market, nor forbid exchange; on the other hand, it restores the normal market and completely unshackles trade.

When all monopoly values have been destroyed and all ground values and public utility franchise values have been completely socialized, industry will not be forced to exert itself below the normal economic margin. The marginal return to common labor-power will then become the true and unerring standard for the measurement of all labor values. The marginal pair will become the determiners of all market values, and the common laborer upon a marginal land-form will become the unconscious but certain arbiter of all wage questions.

Let us assume that two men of equal skill and ability and without any capital-forms go out together on a certain day and work the same number of hours at the same task upon equally fertile and well situated land-forms. At nightfall their day's products will be substantially equal

and, if taken into the market together, they will have substantially equal values.

Let us assume that on the second day one of these men exercises greater skill or ability than the other, thus exerting superior labor-power, all other conditions remaining the same. At the close of this day his product will exceed that of the other man in quantity, and in the market will be of correspondingly greater value. This increased value resulting from superior labor-power we have called a labor differential. Omnisocialism would turn both products into the public storehouse, and reward both laborers with time checks for the same number of hours. The only additional recompense open to the superior laborer would be possible promotion to a more desirable occupation. Bisocialism would give this labor differential, without reduction by taxation or otherwise, to the man whose superior skill or ability caused it to be; and it would leave him free to bring about his own promotion to a more desirable occupation in competition, and upon equal terms, with his fellows.

Again, let us assume that on the third day the same man, in addition to the exertion of superior labor-power, has converted his excess of the day before into a capital-form which he now uses to overcome the disutility of time. At the close of the day his product contains two elements of differential value. He has now a capital differential as well as a labor differential. Omnisocialism and bisocialism would treat this capital differential in the same way as they would treat the labor differential, respectively,

the one turning it into the common store, and the other leaving it without diminution to the man who created it.

The established order purports to treat these differentials as individual property, but its treatment differs from that proposed by bisocialism in two respects. The established order takes from the possessor part of his labor differential and part of his capital differential in the form of taxes, thus, in effect, fining him for his industry in the one case and his frugality in the other. And on the other hand, it would, in certain cases, grant him a monopoly in the use of his capital-form, as by a patent, and thus enable him to lay tribute upon his fellow-worker. Bisocialism would do neither of these things.

Let us further assume that on the fourth day the same man exerts his superior labor-power, assisted by pure capital, upon a superior land-form, the other man having made no changes whatever. The one now has three differential values of product—a labor differential, a capital differential, and a land differential. The established order gives him the land differential subject to a slight diminution in taxation. Omnisocialism would turn the entire product itself into the public storehouse and issue time checks to both men equally. Bisocialism would turn that part of the differential value of the product which results from the use of the superior land-form into the public treasury to be expended for the common good; thus treating the superiority of the land-form as an advantage of external nature which all can not occupy, but the distinctive values of which all should and may thus enjoy in common.

Let us now assume that on the fifth day the progressive man in question has acquired a franchise from a municipality by virtue of which he uses a public street for private gain and in a manner not open to any other person. To his net values he has now added a franchise differential. This the established order enables him to retain practically without taxation. In both forms of systemic socialism such business enterprises would be conducted by the municipality, and public utility franchises in private hands would be unknown; or, if private ownership of public utilities should be allowed under bisocialism, the differential values of their franchises would be wholly socialized in taxation.

Finally, let us assume that on the sixth day our man of progress acquires and uses a monopoly upon some instrument or process of production and in this way secures an artificial advantage over his fellow-worker. He now has a monopoly differential of product which the established order enables him to retain. Under either form of systemic socialism no such differential could be acquired.

The five differentials which we have enumerated are the only differentials which it is possible to create or acquire under any economic system whatever. In the established order all these differentials exist and all are left to private ownership subject to the same restrictions in each case as to liability to taxation. The matter of their origin is now wholly ignored by the State in its system of raising revenue. In omnisocialism the last two—franchise and monopoly differentials—would not arise, and all the others would be absorbed by the State without

distinction as to their origin. In bisocialism one class of these differentials—all monopoly differentials—would be abolished, two classes—land differentials and franchise differentials—would be socialized, and the remaining two—labor differentials and capital differentials—would be left to their individual creators without any diminution whatsoever.

These five differentials may be examined from another point of view. Labor differentials and capital differentials may be created and acquired under and by virtue of the simple laws of industry and exchange, without the necessity for any law or action of the State whatever. Among free men labor has ever been recognized as giving a natural title to its products, and capital is nothing but labor-forms put to a particular use. On the other hand, labor can not give a natural title to a land-form which it did not create; nor to a franchise nor to a monopoly, for these are creations of the State. In all civilized countries land-forms are held under a tenure established and upheld by law, the source of all land titles being the sovereign power of the State. The same is true of all titles based upon franchises and monopolies. Such titles are purely legal as distinguished from the titles of labor-forms and capital-forms which have a purely economic basis and exist independently of the existence or action of a particular government or State. Bisocialism would individualize all purely economic differentials of product, and would either socialize or destroy all purely legal differentials.

By retaining the competitive system as exhibited in

an open and wholly unrestricted market, bisocialism would give to the people the utmost advantage of that feature of the market which results in the socialization of utility. The importance of this feature as a social and economic factor can hardly be overestimated. By it the marginal seller of every trade-form must cater to the demand of the marginal buyer. The result is that among producers there is induced a constant effort to acquire their products with the least possible disvalue, and that among consumers all are enabled to buy at prices fixed by those buyers who are most indifferent or least capable of all. In this way society as a whole is enabled to satisfy its desires and the desires of its members with the least exertion.

In the absence of all monopolies and with all ground values and all franchise values socialized, there would be nothing in the competitive system of industry and exchange incompatible with the highest good of any member of society. It is true, as the omnisocialists say, that under the established order some men are enabled to oppress and exploit their fellows, and that it is possible for a few men to combine in such manner as to oppress and exploit the masses. But it is also true that the only way in which one man may oppress or exploit another, or in which a combination of men may oppress and exploit the masses is by obtaining a differential advantage in the possession or control of land-forms, or in the possession and control of public utility franchises, or of monopolies. In other words, the only men who can by any possible means (short of physical force or intimidation) oppress or ex-

ploit their fellows or the masses are landlords, franchise-holders, and the beneficiaries of monopolies. When monopolies have been destroyed and all franchise values and ground values have been taken out of the possession and control of private individuals and thoroughly socialized, it will be an utter impossibility for any man to oppress or exploit another in any manner within the reach of any economic remedy. Men may still steal from one another, and may reap where they have not sown by means of violence, intimidation, or fraud, but these evils must be remedied by the State under its police power. They are not manifestations of any economic disease, and for them there is no economic remedy.

The economic “law of gravity,” that men everywhere tend to satisfy their desires with the least exertion—that they seek a maximum of satisfaction with a minimum of effort—is completely recognized by the working plan of bisocialism. This plan enables every man to work under the most favorable conditions possible; it gives no man an economic advantage over his fellows; it places no restrictions upon any man except such as are necessary to give and maintain equality of opportunity to all men; it gives to every man every value which he distinctively creates, and every value to which no man can lay claim as distinctively his own it absorbs into the public treasury to be expended for the common good. It is a cardinal doctrine of bisocialism that the State should enable every man to satisfy his desires with the least exertion, *provided* that he does not thereby interfere with the equal oppor-

tunity of every other man to do the same. This is the “law of equal freedom” of bisocialism.

Bisocialism recognizes the true nature and import of the market as manifested in *value* and *cost*. It recognizes the double aspect implied in the definition of *price*, and gives due attention to both sides of the market. It looks upon the buyer (consumer) rather than the seller (producer) as the more important person in the market, and makes consumption rather than production the matter of greater economic importance. In the established order, the producer is all in all. It is always he that is “protected” by legal differentials. It is always the consumer who “pays the freight”—protection and all. In bisocialism the State will not protect any man at the expense of another. It will protect every man—not some men—but it will be by protecting him against any undue advantage upon the part of another. The law should give to all men equality of opportunity, and should protect them in the enjoyment of such equality—that is all.

Under bisocialism the tenure of land-forms would remain as at present in form and also in substance, except that the rate of annual taxation would be increased to 100 per cent. of the ground value. It has been shown in a former chapter that under such a system ground values would be reduced from substantially twenty years' purchase—the aggregate sum of twenty years' ground rent—to the present worth of one year's ground rent at the current rate of interest, and that thus the ground value or selling price of a land-form would become less than its ground rent. Land-forms could still be held as an

investment, and would yield the current rate of interest upon secure investments. But other things remaining equal, land-forms would be worth only about one-twentieth what they are at present, and under bisocialism nineteen-twentieths of the funds now invested in land-forms would seek investment in productive enterprises. This would give great impetus to industry and exchange. The socializing of ground values would make speculation in land-forms unprofitable and impossible, thus throwing all land-forms open to actual users; and at the same time it would divert a large fund from unproductive to productive uses. It needs only to be stated to be seen that a farm which now costs \$20,000 will produce just as much grain when the price is reduced under bisocialism to less than \$1,000; and that just as much business can be transacted upon a corner lot when, under bisocialism, the price is substantially \$1,000 as when, in present conditions, its price is \$20,000.

If ground values were wholly socialized as proposed, one effect would be to throw all unused land-forms into use, as the tax would be the entire ground value whether used or not. This would tend still further to lower the price of land-forms. But, on the other hand, the diverting of large investments from idle and otherwise unproductive land-holding into productive enterprises would cause a great demand for land-forms upon which to conduct these enterprises, and we may fairly assume that these changes would tend to establish an equilibrium, and that ground values under bisocialism would be substantially one-twentieth as great as at present.

Aside from being very greatly simplified and reduced, the machinery of taxation would remain as at present. All custom houses would be abolished and the horde of tax-gatherers—customs officers, collectors of internal revenue, gaugers, spies, inspectors, and the like—now maintained by the general government would be disbanded. The only tax would be a tax upon ground values—irrespective of the values of improvements—unless it should be the policy of the State to permit public utilities to be operated under franchises by private persons. In this case the tax would be extended so as to include the entire selling value of such franchises each year. The selling value of a franchise under such conditions would be such that the annual net income not only would pay the current rate of interest on the investment after the payment of the tax each year, but also would reimburse the amount of the investment itself within the life of the franchise. The selling values of franchises would be computed from tables of values in much the same way as the values of annuities are now determined. But under a system of bisocialism the logical plan is governmental or municipal ownership, operation, and control of all public utilities, thus leaving ground values as the single source of governmental and municipal revenue.

Under such a working plan the State would permit private ownership and private enterprise in all matters not requiring a franchise, but would socialize all ground values by absorbing them into the public treasury by means of taxation. Franchise values, on the other hand, would be socialized by the direct socialism of all those businesses

under which such values now accrue. So that, strictly speaking, bisocialism contemplates the socialization of one kind of value—ground value—and one kind of business—the business of operating public utilities. All other values and all other businesses are to be left to individual ownership and enterprise free from any and all forms of taxation, and free from all artificial restrictions.

If, under a system of bisocialism it should be deemed politic—it certainly would not be economic—to give to authors and inventors such encouragement as the government now attempts to give by means of patents and copyrights, it might be done much more effectively than at present, without discriminating against any particular person or class, and with but slight discrimination against society as a whole. The publishing of the copyrighted book or the making of the patented article might be thrown open to all, the only condition being the payment of a given royalty to the author or inventor for a given time by every publisher or manufacturer under such regulations as might be necessary to protect the person entitled to receive such royalty. This plan could be adopted under the established order and would be a vast improvement over the present plan, which seldom results in any substantial benefit to the inventor and not always to the author. At any rate, all publishers and manufacturers should be put upon the same plane, and the differential advantages, if they are to be given, should be limited to the authors and inventors themselves.

In this connection it may be well to note that a similar change might be made under the established order with

reference to the policy of so-called protection to home industry. In order to have all the advantage of the protective system, so-called, it is not at all necessary to have a "protective tariff" as now established. Instead of congress seeking to ascertain and to establish in the case of every protected article a tariff rate, specific, *ad valorem*, or both, which will give the desired "protection," let it ascertain and establish as nearly as it can the amount of each foreign article which can be imported into the United States without lowering the market price to the extent of "crippling home industry." Then let it be enacted that such quantity may be imported annually, and no more, and let the privilege of such importation be thrown open to competition, the highest bidder being awarded the exclusive privilege to import such quantity upon paying the amount of his bid into the public treasury. This plan, like the formulation of tariff schedules by experts and committees in congress under the present tariff system, is purely arbitrary and economically unjustifiable, but it would carry out the protective theory to the utmost extent and in the simplest way. It would preserve the competitive principle in so far as it can be preserved without abolishing the protective policy itself. It would disassociate the protective policy from the question of taxation, and would place such policy squarely upon its merits before the people. Bisocialism would ultimately discard such a plan as contrary to the economic imperative, but under the established order it would work a vast improvement.

Bisocialism would at once adopt the economic standard

of value, and would use the current credit-form as its basic medium of exchange. For all labor, services, and labor-forms purchased by the State it would issue current credit-forms in terms of dailors. These dailors would be redeemed by the State in the payment of ground value into the public treasury, and meanwhile would pass current anywhere, at home or abroad, that the stability of the government was recognized. For foreign exchanges gold might still be used, and would pass then, as now, by weight in all transactions of importance. For domestic use neither gold nor silver would be required as a standard of value, the economic standard having no more reference to gold or silver than to any other trade-form; but as mere current money-forms gold and silver would be retained. The attitude of bisocialism toward the economic standard of value, the current credit-form as a medium of exchange, and gold and silver as current money-forms may be fully ascertained and understood by reference to former chapters which treat of those subjects.

From the discussions of this chapter we may deduce the following definition of bisocialism:

Bisocialism is that form of systemic socialism which seeks to destroy all forms of monopoly; to socialize all ground values and all public utilities; to establish and maintain equality of opportunity among all men, and to leave to private ownership, management, and control all of the distinctive results of individual ability, energy, and thrift.

CHAPTER IX.

OF EQUALITY OF OPPORTUNITY.

It's hardly in a body's pow'r
To keep at times frae being sour
To see how things are shar'd.

Robert Burns.

Many, indeed, fail with greater efforts than those with which others succeed, not from difference of merits, but difference of opportunities; but if all were done which it would be in the power of a good government to do, by instruction and by legislation, to diminish this inequality of opportunities, the difference of fortunes arising from people's own earnings could not justly give umbrage. *John Stuart Mill.*

In our analysis of the competitive system of industry and exchange we learned that from an economic point of view the great desideratum of business life is the acquisition of net value. Net value lies between two movable points, the point of positive utility and the point of exchange. The point of exchange remaining the same, anything which will lower the point of positive utility to the individual producer, will, to that extent, increase his net values; and likewise, the point of positive utility remaining the same, anything which will raise the point of exchange of particular products will lead to a corresponding increase of net values in the hands of certain producers.

In the course of the competitive system under the established order, some men have come to understand the fact

that an increase of net value may result from the ability, energy, and thrift of the individual exerted in a fair field, with no detriment or disadvantage to his fellow-man, or to society as a whole; or it may result from the individual appropriation of a land-form having a superior advantage of fertility or of location, or both; or from a differential privilege, i. e., a franchise or a monopoly, created and enforced by the State for the benefit of a private individual, company or corporation. Stated in another way, men have learned that, where equality of opportunity prevails, differential net value can be acquired only by means of superior ability, energy, and thrift; but that under the established order it is possible for some men—not all men—to secure net values which do not result from individual ability, energy or thrift, but depend upon the differential qualities of opportunities specially enjoyed under the law.

In an economic system which creates and dispenses differential opportunities in industry, exchange and land tenure, it is natural that men should strive to become the beneficiaries of such advantages. Men are wont to assume that anything that is legally right is economically correct; and under a system which encourages a struggle for differential opportunities, and rewards the successful man with prominence, riches and honor, while condemning the unsuccessful to obscurity, poverty and servitude, many men become utterly indifferent to questions of Economics, and even of ethics, and aim only to keep within the law in the acquisition of net values. The “captains of industry” and the “Napoleons of finance” of the established

order have acquired their riches, prominence and power, not by the exercise of superior energy, skill and ability in overcoming the disutilities of matter, time and space in an open field, but in acquiring differential advantages, under the law, over their fellow men.

If the established order is to continue, its glaring inequalities and the sources of its differential privileges and advantages can no longer be concealed. Political Economy must come out into the open and discuss practical problems regarding the means of acquiring these advantages. The young man who is seeking a practical education must be shown that unless he acquires some differential privilege, he can lower the point of positive utility only by the exercise of superior labor-power or by the use of capital-forms in the ordinary manner; and that unless he acquires such a differential privilege, he can have no control whatever over the point of exchange. If the established order furnished him a field in which opportunities were equal and open to all, he might well rely upon his own efforts for success. But he should be led to understand that in the established order opportunities are not equal and open to all, and that he must either secure special advantages or become the victim of those who do.

Every man in the United States of America is either the beneficiary of some differential privilege in industry, exchange, or land tenure, or pays tribute to some other person who is such a beneficiary. There is no man so rich through his own energy, ability and thrift, that he can escape the toll-gatherers of privilege, and none so poor that by these collectors of economic tribute he is not made

to suffer. The very poor all live upon an artificially depressed economic margin, and are all despoiled of the normal marginal return. These have no opportunity to recoup their losses or any part thereof, and their spoliation is without mitigation and without recourse. Above the margin there is a chance that instead of being always a victim one may sometimes become a beneficiary; but there is no neutral ground. It is one of the greatest defects of the established order that it presents no way by which a man may escape the blighting effects of its differential privileges; no place where he can produce upon a normal margin; no place where he can be free from monopoly; no place nor manner in which he can satisfy his own desires with the least exertion, without interference, or without interfering with the equal opportunity of some other man to do the same.

If the established order is economically right, then it is right to teach the young to take advantage of its institutions. If it is economically wrong, the wrong is institutional, not personal, and institutional changes are necessary to its reformation. It is useless to decry the monopolist while maintaining monopoly; it is useless to attack the members of a trust monopoly as long as the trust furnishes the most available legal method of acquiring differential values. To eliminate the monopolist and the trust magnate it is necessary either to destroy or to socialize all legal differentials; it is necessary to establish equality of opportunity. It is not necessary, however, to establish equality of personality or equality of product among those who toil.

Equality of opportunity is just as essential to the buyer as to the seller—to the customer as to the producer. In the established order the marginal consumer is artificially depressed to the same extent as the marginal producer. He has acquired his ability to purchase—his ordinary trade-forms or their equivalent money-forms—upon an abnormally depressed economic margin, so that at the outset he is despoiled of the full fruition of his labor. And when he enters the market with his scant supply of money-forms, he finds scarcely an article for sale except at a price artificially held above the normal margin through some form of differential privilege in the hands of others. In buying sugar he pays tribute to the sugar trust; flour, to the milling trust; oil, to the oil trust; fuel, to the coal trust; lumber, to the lumber trust; hardware, to the steel and iron trust; salt, to the salt trust; clothing, to the beneficiaries of a protective tariff; and so on through the entire list not merely of the luxuries, but practically of all the necessities of life. And at the same time that the purchaser is thus despoiled of his already decimated earnings, the supposed protected workingmen in the coal mines, iron and steel industries, etc., are striking or threatening to strike for a "living wage"; that is, for a bare subsistence—the wage of slavery. The wage-worker of to-day even as a labor unionist does not ask for economic freedom; he seeks only to make his serfdom more tolerable. When the economic equality of bisocialism becomes his goal, he will become invincible. Until then, despite the efforts of all those who simply attempt to resist or to mitigate the evils of the established order, the

tragedy of the submerged element of society will go on and on—"a striving, and a striving, and an ending in nothing."

The fact that there is a submerged element in the established order is universally conceded. Current literature abounds with references to these unfortunates, and writers upon sociological subjects vie with one another in discussing the status of this element, its cause and the possibility of a remedy for the evils which follow in its train. The generally accepted theory is that these people are submerged because of their personal weaknesses, shiftless habits, and moral delinquencies; that there is no economic cause for their condition, and that as a class they need not exist except for the personal unfitness which they individually and collectively exhibit; that whatever wrong is involved in their degradation is their own personal wrong, or the wrongs of their individual ancestors, and that society as a whole is guiltless of any offense in that respect. This being the verdict of its votaries, the established order treats this submerged element accordingly. It punishes their individual shortcomings with one hand and doles out individual charities with the other. It looks upon their shiftlessness and intemperance as the cause of their poverty; their natural inferiority as the cause of their servitude; and their inherent depravity as the cause of their crimes. Consequently it condemns their ways of life, bewails their weaknesses, and punishes their trespasses against the law. But civic consciousness instinctively feels that this is not enough, and social conscience instinctively recoils from such inhospitable views.

Church and State contribute liberally to relieve the distresses of poverty with charity, but no sooner has one case been relieved than there arises another more heart-rending than before.

The diagnosis of bisocialism concerning this submerged element of civilized society is exactly opposite that of the established order. It maintains that as a class only those are economically submerged who are forced by present conditions to live below the normal economic margin; that there is an economic cause for their condition, and that as a class they need not exist except for institutional wrongs for which society as a whole, and not the submerged as individuals, is responsible. It is true that if a submerged element must exist because of the artificial depression of the economic margin, the weak will naturally become the victims of such artificial conditions, and the weak, being depressed, will tend to become shiftless, intemperate and even vicious in their habits and behavior. But these traits are primarily results, not causes, and crime is the concomitant, not the cause, of evil economic and social conditions among the lowly.

The remedy of bisocialism for the poverty and degradation of the submerged element is quite as radical in its departure from the established order as is its diagnosis. Social righteousness is what it seeks; justice, not charity, is its remedy. It recognizes a clear line of demarcation between the voluntary and the involuntary poor. Before it condemns the individual it demands for him a fair trial—an opportunity second to none in the land to succeed and to live uprightly. If with equal opportunities some

fail, justice will condemn the delinquent, or charity will relieve their unavoidable necessities, as the case may require. But in the established order justice is helpless and charity is abortive because, in any given case, it is usually impossible to determine just how much, if any, the individual is to blame, and just to what extent, if any, he is entitled to receive a helping hand. The condemnation which is the prerogative of justice, if mistakenly imposed, degrades instead of punishing; and the gracious gift of charity, wrongly disposed, degrades instead of helping. Under the régime of bisocialism, justice and charity may walk hand in hand, each exercising its legitimate function, in normal conditions, to the common benefit and uplifting of all men. With equal opportunities to all—accident and affliction aside—no man need feel the pangs of poverty unless he chooses to be poor. With equal opportunities to all—accident and affliction aside—no man need starve unless he deserves to starve. These are the doctrines and the dreams of bisocialism. With a world in which these economic conditions were realized we might reasonably be content. But until we have such a world, and such a world is possible, we should be content—never.

In order to determine which is right in its theory of the submerged element, it is only necessary to test the remedies proposed by the established order and by bisocialism, respectively. If all the individuals of this element should become energetic, thrifty and thoroughly temperate, the economic result would be an increased demand for land-forms upon which to exert their labor-power; and

the improvement of their homes, their surroundings and social life would make it more desirable to live in their midst; hence ground rents and ground values would correspondingly increase. The men who owned the land-forms of the community would reap substantially the entire financial benefit. The augmented price of land-forms for home building would render it harder for the next generation to acquire homes in that locality, and the net result would be a reduction of the margin to a still lower level with a submerged class developing thereon. The established order proposes no remedy which will raise the economic margin. Its attitude confirms the suggestion of Tolstoi that the beneficiaries of privilege will consent to anything in the world for the relief of the poor except to get off their backs.

The abolition of all monopolies as contemplated by bisocialism would not of itself finally solve the problem of the submerged element, for this, like every other improvement either in the people or in the administration of their affairs, would ultimately be reflected in increased ground values. Ground value is the fundamental differential based upon legal privilege, and tends constantly to absorb all the benefits of civilization. It is only when the full program of bisocialism is applied that equality of opportunity may be established by the socialization of all public utilities and of all ground values.

It is urged by omnisocialists as a fundamental tenet of their economic doctrine that it is the owner of capital as employer and as usurer who submerges and keeps submerged the members of the lower strata of society, and

that no remedy is sufficient which does not provide for the total extinction of the capitalist both as an employer of labor and as a lender of money-forms. Attention is called to the fact that among the poorer classes the highest rates of interest are always paid; that when the current rate of interest is 5 per cent *per annum* the very poor habitually pay 5 per cent *per month*, and upwards, for loans upon their scant supplies of jewelry, furniture and even clothing. It is also shown that these people in buying coal by the basket and even by the scuttleful are charged double the price paid by those who secure a season's fuel at the most advantageous time. These are given merely as examples of the wholesale exploitations of the poor.

The answer of the bisocialist to this arraignment of the established order based upon well known and indisputable facts is the same as its answer to the standard economist. These things are not the causes of poverty, but are its necessary concomitants when it is manifested upon a submerged economic margin. The men who loan these people money at exorbitant rates of interest did not originally make them poor; they simply take advantage of a situation which they can no more control than can the exploited borrowers themselves. In order to live these marginal masses must have an opportunity. Their natural opportunity having been removed by their expropriation from the soil upon its normal margin, they are driven to secure an artificial opportunity at what cost they may. They do not become borrowers because of the high rates of interest, but in spite of them. The loan shark and his victim are both the natural and necessary consequences

of a system of land tenure and legal privilege which de-spoils large numbers of people of the normal marginal return.

The same thing is true with reference to those who sell to the poor at exorbitant prices the very necessities of life. They did not originally make these people poor. It was only after these unfortunates became poor that they had to buy in pittances and to patronize those who offer goods for sale in that manner at greatly increased prices.

The student of economic questions must at all times clearly realize and fully consider the fact that all conditions which exist below the natural economic margin are abnormal, and hence phenomena there exhibited can not be taken as indicating the normal results of economic laws. In order that normal phenomena may be exhibited and true conclusions drawn therefrom, it is necessary, first, to restore the normal economic margin, and then to raise its level to the highest available point. When this is done (accident and affliction aside) none but those who are willfully poor need become the victims of the usurer.

Let it be remembered that bisocialism contemplates not only the taking of all ground values in taxation, but also the expenditure of all these values and the administration of all public utilities for the common good. The taking of all ground values into the public treasury will completely destroy the holding of desirable land-forms out of use, and will tend to put all land-forms to their best use. This will raise the marginal producer to the normal economic margin. On the other hand, the expenditure of public revenues in the extension and cheapening of pub-

lic utilities, such as railroad transportation, will greatly increase the utility of those land-forms which now lie upon the normal margin.

Thus by the public collection of ground values the normal economic margin will be restored and the involuntarily submerged classes will be no more; while by the public expenditure of ground values the condition of those who produce upon the normal margin will be vastly improved. The destruction of differential privileges with their consequent differential values is necessarily a leveling process. But the leveling contemplated by bisocialism is largely a process of leveling up, not down, and in this respect it has a decided advantage not only over the established order, but also over omnisocialism.

CHAPTER X.

OF COMPENSATION.

Men having got themselves into the dilemma by disobedience to the law, must get out of it as well as they can; and with as little injury to the landed class as may be. Meanwhile we shall do well to recollect that there are others besides the landed class to be considered. In our tender regard for the vested interests of the few, let us not forget that the rights of the many are in abeyance; and must remain so as long as the earth is monopolized by individuals. Let us remember that the injustice thus inflicted on the mass of mankind is an injustice of the gravest nature.

*Herbert Spencer.**

By the statement that bisocialism involves a process of leveling up rather than down, it is not meant that by its adoption all may be brought to the highest point of efficiency or of enjoyment. It is not claimed that bisocialism will make any fundamental changes in human nature or do away with all of the disutilities of matter, time and space. Nor is it claimed that no substantial reductions will be made in the net values now enjoyed by those whose interests will be directly affected by the abolition of all monopolies and by the socialization of all ground values and all public utilities. The effect of the socialization of ground values and public utilities as well as the destruction of monopolies will necessarily result in the abolition of all differential privileges in industry, exchange and

* *Social Statics*: Chapter IX. (1850.)

land tenure, with the consequent elimination of the net values now individually acquired by means of these privileges. There is no question but that the people as a whole will profit by these changes of economic polity. The transparent equity of the proposals of bisocialism, when once fully understood, must appeal to every serious mind.

If the transition to bisocialism could be made without disturbing the fortunes of those who have prospered under the established order, there probably would be but slight opposition to the change. But this can not be done. With the abolition of privilege must come the cessation of incomes derived from these privileges. Socially there will be no loss, for what some must lose others must necessarily gain. Privilege has its victims as well as its beneficiaries. The laws of Economics are as immutable as the laws of the physical world, and if some enjoy without working, others must, to the same extent, work without enjoying. "In the sweat of thy face shalt thou eat bread" is a condition placed upon the race as a whole. If some escape this condition, it is only by putting upon others an additional burden. There is no other way. In spite of the absolute certainty of this fact, however, the demand is made that in case bisocialism shall be adopted, compensation shall be made to present beneficiaries for the loss of their special privileges. If this demand were recognized, there would be a change in the form, but not in the substance of the differential privileges now enjoyed. If all such privileges were bought in at their present capitalized values, and interest bearing bonds issued therefor, the people at large would pay as much tribute as before.

It is true that future increase of values would inure to the people as a whole and that the bonds might ultimately be paid off. But before adopting such a plan several circumstances are worthy of consideration.

The claim of present beneficiaries to compensation is based upon the argument that while existing conditions may be economically wrong, they are legally right, and that the law having induced people to invest in differential privileges, it should protect them in these investments regardless of the economic conditions which may prevail. This argument assumes that the laws of men have a higher sanction than the laws of nature, and that they are superior to the laws of progress. Let us suppose the case of three young men who begin life upon their own account at the same age, with equal abilities and under like conditions. One, relying upon the conditions then existing in a given trade, spends several years in acquiring a high degree of skill and proficiency in the manufacture of a given article so that he now receives a good income from his efforts. When he has reached middle life and has made all his plans and conformed all his ways to the existing conditions and in expectation of their continuance, a machine is invented which makes his skill practically worthless and puts him back into the class of common laborers with but little prospect of ever emerging therefrom. What has society ever done to compensate such a man? Nothing!

The second young man works at a trade, saves his earnings, purchases an interest in a manufacturing concern, becomes sole owner of the same, and when he has reached

middle life, has just equipped his factory with expensive machinery of the latest type, and has settled down to enjoy a steady income from an extensive business. Machines are invented and installed in competing plants which turn out the same product at half the former cost, and he is practically ruined, as it were, in a day. What has society ever done to compensate this man for being a victim of progress? Nothing!

The third young man likewise works at a trade, saves his earnings, and invests them in a vacant lot or in a farm. The progress of society doubles the value of his holding, and when he reaches middle life he is enabled to quit work and to live in retirement upon his ground rents. A new and better form of taxation is discovered and adopted by the people by means of which the present worth of his ground rent—his ground value as reduced by changed conditions—is turned into the public treasury, and his income no longer supports him as before. Shall society compensate him for his loss and not the other two? Are not all three equally the victims of progress, and if so, may not economic progress as well as material progress be adopted for the good of all without compensation to the individual? And of the three men in question—are not the two who have invested their skill and capital in productive enterprises and are still in the harness, more deserving of compensation than the one who has ceased to work and is living from the sweat of other men's faces?

There is another fact to be considered with reference to the question of compensating the beneficiaries of the established order. In speaking upon this topic it is cus-

tomary to speak of compensating present *owners*, but the proper term is present *beneficiaries*; when this distinction is properly recognized the question really answers itself; for the beneficiary of a wrong can have no claim to compensation for the loss of his differential privilege. In so far as the owner of a land-form is without a differential privilege under the law, he would lose nothing by the proposed change in land tenure. As simple land user he would be as well off as before. If his land-form should become only about one-twentieth as valuable as before in the land market, it would produce just as good crops or would serve him just as well for a home. And if he should sell this land-form at a price greatly reduced, he could buy another at a price correspondingly low. It is true that his taxes upon his land-form would be increased; but he would be free from all other forms of taxation direct and indirect, and better than all, he and all his fellows would become economically as well as politically free. As long as he remained the actual user of this or any other equivalent land-form, the loss of its present capitalized value would not be felt.

Let us now consider the case of a man who by his own efforts secured twenty years ago a farm of 160 acres at a cost of \$50 per acre. Since that time his farm has doubled in value, and he now receives a cash rental therefrom of \$5 per acre. Upon this annual income he can live as a retired farmer, or he can sell for \$16,000 the farm which cost him but \$8,000 and has yielded him a good return for twenty years. Instances of this kind have occurred frequently in the United States, and are com-

monly referred to as beneficent outcomes of our system of land tenure. But let us investigate the matter further. Let us assume that the man in question has four children who have grown to manhood and womanhood during the period when he was acquiring the original price and enjoying the benefits of this farm. Each of these children is now in as great need of a farm as was their father twenty years ago. But what prospect have they, in the farming business, each to acquire 160 acres at \$100 an acre with the price of land-forms still advancing? Do not the same forces which have made the father comparatively rich tend to keep all his children poor?

Suppose now that this father dies and leaves his farm to his four children as their only inheritance. In common speech we say that he has done well by them, and so he has. But under modern farming processes these children can not divide their farm into 40-acre tracts and severally live thereon; nor can any one of them buy the shares of all the others in ordinary circumstances. So they sell the farm at \$100 an acre and divide the proceeds. If, now, one of them desires to own a farm of 160 acres, he can pay for but 40 acres at current prices. The remaining 120 acres will cost him \$12,000, or 50 per cent more than his father paid for the original farm. The same cause which added \$8,000 to the value of the father's farm has added a like amount to the value of the farm which the son now desires to buy. To the values of the farms desired by the other children the same increase applies, so that as land users they have secured an additional inheritance of \$8,000 and an increased cost

on four farms now desired by them of \$32,000 in the twenty years in question. As a family they would have been much better off under a system of bisocialism in which all could have secured farms at their actual values for *use* without either the payment or the receipt by any person of that form of tribute involved in the private appropriation of ground rent. As a family of land *users* they would have been benefited if, at any time within the twenty years, bisocialism had been adopted without compensation to the father as a beneficiary of the established order.

If compensation is to be made to the beneficiaries of the established order when its inequalities are abolished through the adoption of bisocialism, what shall we say of its victims? Are they not to be considered? It is true that when all ground values are paid into the public treasury and are expended for the good of all, the multitude now submerged and despoiled will be raised to the normal economic margin and thus benefited beyond measure. But to this they are now entitled; to this they have been entitled these thousand years. Instead of recompensing the beneficiaries of this institutional wrong, should not the State in administering substantial justice between man and man take from the former beneficiaries even that they have and give it to the former victims of this wrong? Restitution and not compensation would seem to be the logical demand of justice under the new dispensation. But in the enjoyment and good will engendered by better things the past will doubtless be forgiven, and the

disinherited will be satisfied when happily they come into their own.

A favorite problem propounded by those who argue in favor of compensation to present beneficiaries is this: Suppose that a poor widow owns a lot next door to the mansion of a multimillionaire. This lot with its humble improvements constitutes her homestead; is all that she has in the world. The lot of the millionaire is no larger nor better than hers, but upon it he has built a residence at a cost of \$1,000,000. Along comes the assessor under bisocialism and assesses the property of each at the same amount, exempting the buildings and other improvements in both cases, and listing a tax against each lot equal to its ground value. Is this right?

Let us analyze this problem. In the first place, a widow who, in present conditions, owns such a lot next door to a million-dollar residence is not poor, though she may live in a hovel. She could easily dispose of her lot at a price which would make her comparatively rich, and with the proceeds she could live comfortably in some other place. She deserves no sympathy on the ground of poverty.

It must be conceded that from an economic point of view she is not putting this lot to its best use. She does not need such a lot for the kind of house in which she chooses to live. Bisocialism would compel her to put this lot to a better use or surrender it to some one who would. As it is, she is simply standing in the way of the progress of the community, and the community rewards her for doing so. Under bisocialism she would seek the

location most suited to her means and mode of life. No one could demand of her a farthing more for a building site than it is actually worth for present use, nor could she demand an artificial price for the land-form which she now owns.

But this is not all. In dealing with institutions all the facts involved can not be applied to an exceptional case. For one widow who may own a home next door to the residence of a millionaire, there are a thousand, in the established order, who own no homes at all. Suppose that through the sudden advent of bisocialism, if that were possible, nineteen-twentieths of the value of this widow's home was lost to her. Then by the same process the difficulty of securing a home would be only one-twentieth as great to the thousand other widows. The condition of these, also, should be considered. They are below, not above, the normal margin. The first duty of society is to succor them and to put all persons, rich and poor, upon a plane of equality of opportunity. Then, and not till then, individual cases may be investigated with the certainty that things are what they seem. At present personal merits and demerits are so hopelessly intermingled with institutional rights and wrongs that justice is baffled at every turn.

The illustration which seeks to discredit the proposals of bisocialism by an appeal to the case of the poor widow is the logical successor of the illustration of the widow whose all was represented by the ownership of a single slave before the Civil War. In fact, there is not an argument against the restoration of the common rights of the

people in the ground values and public utilities of their common inheritance that was not worn threadbare in defense of human slavery. In the days of slavery it was proposed that if that institution was to be abolished at all, it should be done only by compensating the slave-owners for the loss of their investments in human flesh and blood. It is probable that if the slave-owners had favored the abolition of slavery on these terms, it might have been accomplished in that way. But they relied upon their supposed legal rights—and lost.

There is no economic reason why the beneficiaries of the established order should be compensated for the loss of their investments in differential privileges any more than that the slave-owners should have been compensated. The question which Economics asks is this: Are ground values and public utilities rightfully the subject of private property, or should they be socialized? If they should be individualized, that is the end of the controversy. If they should be socialized, this can be true only on the theory that all ground values and public utilities belong of right to the public, and should be expended and used solely for the common benefit. Therefore, in this latter view, to devote any revenues arising from these sources to private uses is economically indefensible. To take ground values from present beneficiaries in the form of taxes, and then to return it to them in the form of interest upon the capitalized value of their differential privileges, would be an economic travesty. It would make a mockery of the fundamental economic reform.

It is one of the cardinal doctrines of the law that pri-

vate property shall not be taken for public purposes without due compensation. Hitherto it has not been customary to distinguish between property and privilege, and the beneficiaries of privilege are wont to refer to their privileges as their property. In this they have been sustained by standard Political Economy and by many interpreters of the law. There is all the difference in the world, from a legal point of view, between taking private property itself for public purposes by condemnation or proceedings in eminent domain, and the taking of property values for public revenues through the processes of taxation. The doctrine of due compensation always applies to the former, never to the latter. Even now, in theory, the revenues of the State are taken because they belong of right to the State and not to the individual, and for values taken in taxation there can be no compensation except the usual benefits of government. A valid claim for any private compensation in this regard is economically absurd and legally impossible.

Even if the plan of compensating existing beneficiaries were tenable in the theory, it could never be realized as a fact unless the beneficiaries themselves in apt time should voluntarily offer to surrender to the State their differential privileges at appraised valuations. Some far-seeing railway officials now recognize the handwriting on the wall, and would willingly make such a proposition concerning the public utilities which they control. But as a class the beneficiaries of privilege will doubtless continue to stand upon their supposed power to acquire a vested right in an economic wrong, and their opportunity

to secure recognition for their claim for compensation will thus be lost through their own hostile acts and attitude.

The effect upon land owners of the decline in ground values brought about by bisocialism may be illustrated by reference to the decline in the price of gold between the close of the Civil War and the resumption of specie payments in 1879. At a time somewhat before the beginning of the war gold was at par in the stock exchange at New York. The agitation and unrest which preceded the breaking out of hostilities caused gold to go to a small premium prior to April, 1861. From that date until July, 1864, the premium on gold increased, with fluctuations more or less violent, until a maximum quotation of 285 was attained. The prospect for the ultimate success of the Union arms permanently checked the rise in gold, and the price gradually receded until at the close of the war the market quotation was 146. During all the period from the beginning of the war to the resumption of specie payments, the leading newspapers gave daily quotations of the price of gold as regularly as the prices of wheat and corn. The quotation for gold gradually declined after 1864, the decline being accelerated by the act of congress for the resumption of specie payments, passed in 1875, until on or about January 1, 1879, gold was once more at par.

In the years covered by this period, no one man, perhaps, saw his particular gold coins increase in value from 100 to 285; and no one man, perhaps, stood all the loss on any particular gold coins when the price receded from

285 to 100. Taken as a whole, the gains of the ascending series and the losses of the descending series were distributed day by day through the exchanges of the market, among many persons.

Since the first settlement of the United States the values of its land-forms have gradually, though rapidly, increased from zero to their present status. With the advent of a widespread and effective demand for the socialization of all ground values, the selling prices of land-forms will cease to rise and then begin to decline. In the years necessary, under the most favorable conditions, for the complete socialization of ground values, the decline from the present price to the present worth of one year's ground rent in each case will be distributed among many persons. No man who is not willfully blind to the signs of the times need suffer any great loss, if he exercises ordinary business prudence. As has been shown, only those will suffer a real loss who wish to hold land-forms simply as investors and not as real land users, and those who may wish to change from land ownership to some other form of investment. If these persons act with sufficient promptness and discretion, they can avoid serious loss by letting their land-forms pass early into the hands of actual users.

In the study of the questions involved in the advent of bisocialism many—perhaps most—persons regard the question of compensation to present beneficiaries as most important of all. To most persons who cling to the established order and seek to justify it against the assaults of bisocialism, the question of compensation to present own-

ers, as they put it, furnishes the argument of last resort. This will be the last ditch of the vanquished army of privilege. And yet, as a matter of fact, this question is among the least important; least important upon its merits, least important because the beneficiaries themselves will not accept compensation while yet they may, and least important, also, because in the evolution of economic forces and of the distributing processes of the market this question will practically solve itself.

CHAPTER XI.

OF PUBLIC UTILITIES.

There must be no private use of public power or public property. These are created by the common sacrifices of all and can be rightfully used only for the common good of all.

Henry D. Lloyd.

We have defined a public utility as an industrial enterprise which necessitates the special use of public land-forms, or the acquisition and use of private land-forms under the special power of eminent domain, in supplying some product or service generally desired by the people. Such enterprises, in normal conditions, are not open to full and free competition among individuals, but require some public grant of unusual authority or power to make them effective in private hands. Such a grant we have called a public utility franchise, or, more briefly, a franchise. In the established order some public utilities are socialized, or practically so, while others are not.

The business of carrying the mails is an industrial enterprise which is everywhere conceded to be a proper public function. As now conducted this enterprise is largely socialized, but in the United States it contains a curious admixture of individualism. The employes of the postal department are nearly all directly employed by the government, and in the larger cities the postoffice buildings are publicly owned. With the exception of these buildings

and the mail bags and locks nearly all of the property used in the service is privately owned; and in some cases the carrying of the mails, instead of being by government employes, is let by private contract to persons who furnish their own equipment and employ their own help. Nearly all the actual carrying of the mails is done by privately owned railroads under contracts with the government. The entire business of the railroads, under our definition, is a public utility since, in present conditions, it necessitates the acquisition and use of private property under the special power of eminent domain. All railroads are operated under public utility franchises granted by the several states and commonly called charters.

Street railways are public utilities, but they differ from ordinary railroads in this: They necessitate a special use of public land-forms rather than the acquisition and use of private land-forms through the special exercise of a public power. A street is a public land-form open to all persons alike in the use of ordinary conveyances, but ordinarily only one company can use a given street for street railway purposes. All street railways are operated under public utility franchises.

Telegraph and telephone lines constitute another form of public utilities. Usually they are constructed along and upon public highways, although they may require the condemnation of private property for their special use. They also require public utility franchises to make them effective in private hands.

Akin to railways and, to some extent, to telegraph and telephone systems is the industrial enterprise which now

seeks to transmit property and intelligence under and along the public streets by means of pneumatic tubes. This constitutes a public utility, and requires a franchise accordingly.

The other public utilities of importance consist of those industrial enterprises by virtue of which water and gas are conveyed to consumers, and electricity is conveyed and furnished for the purposes of heat, light and power. The transmission of hot water and steam for heating purposes under and along the public streets also constitutes public utilities.

We have already noted that all public utilities require the special use of land-forms. We may also note that they all involve the element of transportation, the transmission of intelligence by telegraph or telephone being deemed a form of transportation. In the case of railroads, street railways, telegraphs, telephones and pneumatic tubes, the element of transportation constitutes the entire service rendered; while in the case of all other public utilities enumerated there is the element of transportation plus a product or service furnished or rendered in or by the thing transported. In the case of railroad shipments the property transported is furnished by a private owner at the shipping point, and is received by him or by another owner at the point of destination. The only function of the railroad company is that of carrier. In the case of water works, on the other hand, the thing transported belongs to the transporter when it leaves the central source of supply, remains his property in transit, and changes ownership only as it is consumed.

In the United States the most of these public utilities are conducted as private enterprises under franchises granted by public authority. There is no uniformity of plan in vogue concerning them. In nearly all cities water is furnished by the municipality, and gas by private companies. Some cities own and operate their own electric light plants, but the most of those using electricity for lighting purposes do not. Telegraph and telephone systems are universally in private hands except as they may be used exclusively by fire and police departments. Substantially all straight transportation facilities are in private hands.

Neither is there any uniformity in plan concerning the charges made for these public utilities when considered as a whole. Water, gas, electric light, hot water, steam or electric heat, electric power and similar utilities are usually furnished at a flat rate throughout the municipality for the same amount of product supplied or service rendered. In matters of straight transportation a flat rate is usually maintained on street railways, and uniform mileage rates for passengers on steam railroads. Telegraph and express companies combine the flat rate and mileage plans and use a sort of zone system, making the zone limit instead of the mile the basis of the charge. In a city like Chicago a man, by using transfers, may ride one block or twenty miles for five cents. On a steam railroad he pays a fixed rate per mile, regardless of the distance, in ordinary circumstances.

Under bisocialism, all these public utilities will be owned, operated, and controlled by the people in their

governmental capacity. All railroads will belong to the national government, and all local enterprises to their respective municipalities. It is probable that what are now known as interurban electric lines will be owned and operated by the states in which they are located, except in so far as they involve interstate traffic. If in time electricity wholly supersedes steam as a railway motor power, these local electric lines will merge into a part of the general railway system.

It is necessary to socialize all these public utilities in order to carry out the mandate of the economic imperative. Experience is daily teaching us the necessity for this step, and is constantly preparing the public mind for definite action. In view of these facts the matter of a definite and uniform working plan for the socialization of these public utilities is worthy of careful consideration. In formulating such a plan it will be wise for us to keep constantly in mind those laws of the market which are as constant and inexorable as the law of gravitation, and quite as important within their spheres as is the law of gravitation in the physical world.

In the field of industry, men are constantly endeavoring to comprehend and to take advantage of all the laws of nature. Experience has taught them that the physical world is governed by immutable laws, and that by ascertaining these laws and acting in harmony therewith, man may now achieve results which would have been deemed miraculous in other days. In the field of Economics there are laws just as immutable and just as important, if we would but seek them out and put not only ourselves, but

also our institutions, into harmony therewith. For there is this difference between physical and economic laws: A single person may succeed in putting himself and his energies into right relations with physical laws, and thus perfect an invention capable of physical demonstration by him acting alone. All others may be incredulous, but he may succeed none the less; but in the realm of Economics the environment of man is institutional. One man may realize the defects of a given institution and may discover a remedy which would increase the happiness of the race a thousandfold. But singly he can not put his remedy into operation. He must convert a majority of his fellows to his manner of thinking before he can fully set in motion those economic forces whose results he has foreseen. These facts have tended to keep the economic progress of the race far behind its industrial achievements.

In the matter of the socialization of public utilities, an early attempt at which is now practically assured, a full understanding of the economic laws involved will make a whole step as easy to be taken as a half step; and in the absence of knowledge the half step may be taken in the wrong direction and, failing in its purpose, may ultimately prove to be a retrograde movement. In the consideration of the question of public utilities, the economic proposition of supreme importance is this: All the measurable benefits of the socialization of public utilities are and ever will be reflected in the values of the land-forms occupied by the community affected. This is true, regardless of the size of the territory involved. It is just as

true of the land-forms of a nation as of city or village, if the public utility socialized is national in its scope.

We have already shown that if a given city should furnish natural gas to its inhabitants at the actual cost of maintaining and operating the requisite plant so that the price of gas to consumers might be reduced from \$1.25 to 25 cents per thousand feet, the ground rents and ground values in such city would rise until the cost of living would be as great as before. In the same way, if freight charges upon corn were reduced one cent per bushel from a given community to the Chicago market, ground rents in that community would increase 50 cents per acre, if 50 bushels per acre was the average yield of corn. The tenant would be no better off than before. And if street car fares in any city were reduced from five cents a ride to three cents, the working people would receive no permanent gain. The price of building lots and the ground rents in the residence districts would rise so as to swallow up the entire measurable gain. There is nothing capable of more certain demonstration, either from economic theory or from an appeal to actual facts, than that if all public utilities were socialized and the benefits thereof furnished to the people at the actual cost of maintenance and operation, and the present system of private land tenure were preserved, the cost of living to the people as a whole would not be lowered in the least. More land than at present could be held out of use for speculative purposes, and the economic margin might be still further depressed as a result of the added impetus to the rise in land values.

Let us assume, however, that contemporaneous with the

socialization of all public utilities and the beginning of their operation at cost, all ground values were likewise socialized by being appropriated for public purposes and collected into the public treasury by means of taxation. As before, all the measurable benefits of the socialization of the public utilities would be reflected in ground values; but these values would themselves be socialized and would be expended for the common benefit of all the people. This would relieve producers from all other forms of taxation and would put all land-forms upon the market at their current values for actual use. Such a system could have no special beneficiaries. All the measurable benefits of science, civilization and government would inure to the actual users of the soil, and not to persons whose ownership gave them control of land-forms which they did not use or occupy and which, perchance, they had never seen.

Let us now assume that under the socialization of public utilities and their administration in the interests of the people at actual cost, as last above described, the railroads were conducted, as at present, at a given rate per mile for the carrying of passengers, and a given rate per hundred pounds, according to distance, for the carrying of freight. This plan would discriminate, as at present, against those living at a distance from the centers of trade. Under a system which socialized all ground rents there would be no economic reason why a man living ten miles from Chicago should be able to reach that city by rail at a cost of ten cents, while a man living one thousand miles away must spend ten dollars for railroad fare, if the rate be one cent per mile. The benefit to the man

living near the city would be reflected in the ground value of his land-form, and at the end of the year this benefit would be covered into the public treasury in the form of taxes. The same would be true of any advantages he might enjoy as to freight rates. This would ultimately place them upon an equal footing as individuals, and their net values would depend not upon the relative desirability of their respective land-forms, but upon their respective exertions. Such a plan would give them substantial equality of opportunity and at the same time furnish the State a natural source of revenue. But in itself this plan would not tend to raise the more remote producer above the then existing normal margin, nor would it tend to raise the margin itself after it had been once normally established.

Let us now assume that with the socialization of all ground values, public utilities were also socialized in such manner as to secure for all transportation in the United States a flat rate both for passengers and for freight traffic, after the manner of street car fares in cities where but one fare is charged regardless of the distance traveled. This would tend not only to equalize, but to eliminate the element of distance in all the industrial and commercial affairs of the United States. It would tend to put the land-form upon the Pacific Coast within comparatively few miles of Chicago. It would be a species of coöperative effort by means of which the people as a whole might overcome the disutility of space to a degree wholly impossible to the individual man, or to society under private ownership of public utilities.

Let us now further assume that instead of a flat rate

made to cover actual cost of maintenance and operation, all forms of transportation by means of public utilities in the United States were made absolutely free to the individual, ground values as before to be turned into the public treasury. In such case the increased benefits of free transportation would be reflected in ground values, and would annually be absorbed into the public treasury to an extent sufficient to maintain and operate all public transportation facilities. As a mere business proposition it has the advantage of much greater simplicity and cheapness over the plan for a flat rate. The collection of transportation charges of all kinds as a part of the annual tax upon ground values would simplify the operation of transportation facilities to the last degree, and economically all the purposes of socialization would be most fully subserved.

Free transportation in conjunction with the socialization of all ground values would greatly raise the economic margin.

We have seen that the utility of a land-form depends upon two things; its adaptability for use, and its location with reference to the centers of population and trade. If transportation were free, the disutility of distance would be eliminated except in so far as it conjointly involved the element of time. Even if transportation were free, the man who could reach a given market in one hour's journey would have an advantage over one who was compelled to journey for a day. There would be a corresponding advantage in the matter of shipments by freight. These advantages, however, would be reflected in the

ground value of the nearer land-form, and by its socialization the two men would be put on a parity with reference to their opportunities regarding the disutility of time. But the parity would be based upon the status of one more remote. With reference to the disutility of space they would not only be put upon a parity, but the status of the one nearer the market would be made the basis of their equality. The advantages of the one more remote would be raised to an equality with the other as to the element of mere distance. If the more remote land-form were upon the economic margin, the status of the marginal producer would be raised, barring only the disutility of time, to the level of the producer who has his market just at hand. There is not within the range of economic thought so good an illustration of the vast importance of conforming the institutions of society to the laws of the economic world.

Obedience to the laws of the physical world has made man the master of his physical environment. Invention after invention, process after process, and skill upon skill have added prodigiously to the results of the exertion of labor-power. But despite all these, there remains an army of those who are compelled to toil below the normal margin. To these victims of institutional wrongs the victories of man over the physical world bring no relief. There is still a realm of degradation and despair where women work harnessed with the ox, and in field, factory and mine little children toil their joyless lives away. And so it must remain until society shall understand and obey the laws of the economic world, and so arrange the institution

of property that physical laws and economic laws shall work in harmony, so that both nation and individual may conform to the laws of life. When this is done the dreadful doctrine of Malthusianism may be laughed to scorn, and the dread specters of want and the fear of want will disappear from every normal and industrious life forever.

CHAPTER XII.

OF ECONOMIC EVOLUTION.

Oh, sometimes gleams upon our sight
Through present wrong, the eternal Right;
And step by step, since time began,
We see the steady gain of man.

John G. Whittier.

Bisocialism presents to the world a definite and comprehensive working plan. In order to bring about the condition of equality of opportunity which it advocates and seeks to establish, bisocialism proposes that certain definite steps be taken in the transition from the old order to the new. It realizes that all these steps can not be taken at one time nor, probably, can they be taken in their logical and most effective order. In overcoming obstacles in the economic world men are prone, as in the physical world, to advance along the lines of least resistance. Local situations and conditions greatly affect men's minds and tend to bring into prominence here one and there another of the phases of economic reform. For these reasons it is wellnigh certain that the socialization of public utilities will precede the more important and fundamental reform embraced in the socialization of all ground values.

The steps to be taken in carrying out the plan of bisocialism are few in number and simple in detail. They are not entire departures from conditions existing under

the established order, but are steps which can be taken in the course of economic evolution. For instance, we already derive part of the public revenue from the taxation of ground values; all that is necessary to bring about the fundamental economic reform is to increase the socialization of ground values by means of taxation until all ground values are taken and these become the sole source of public revenue. We now have a standard of value which recognizes one of the three economic disutilities—the disutility of matter. This standard may be extended until it recognizes also the disutilities of time and space. We already have greenbacks as currency. These are *de facto* credit-forms as long as they are receivable at par in payment of taxes, although they are issued as debit-forms. We could exchange these dollars for dailors, and thus have credit-forms in name as well as in fact. We now have public ownership, operation and control of some public utilities, notably water works in cities. We can extend this principle to all public utilities. We now have excellent examples of flat rate charges for public utility products and services in water rates, street car fares, and rates of postage. An extension of this principle is all that is necessary to work a partial evolution in respect to such charges.

Finally, we have an excellent example of free transportation and the reflection of its benefits in increased rents in the case of passenger elevators in modern office buildings. What is a system of elevators in a twenty-story office building but a miniature railway system stood on end? Tenants, their customers and clients are carried

to any floor free of charge; but the expense of this service is counted in and becomes a part of the rent for every part of the building. To have a collector of fares in each elevator would be intolerable; but the landlord gets his income from the elevators none the less. So it might be if all public utilities were furnished by the government free of charge. All the benefits of the service would be reflected in ground values and could be easily and inexpensively collected as a part of the public revenue. Patents and copyrights can be abolished by the mere repeal of a few statutes. If these steps were taken one after another, or coterminously, as the case might be, a complete system of bisocialism would be evolved from the established order. We would then have:

1. Ground values for the sole source of revenue.
2. The current daily return to common labor-power upon the margin—the dailor—for the standard of all values.
3. Government credit-forms for currency.
4. The public ownership, operation and control of all public utilities.
5. The extension of the flat rate principle to all public utility charges: and, ultimately,
6. Free transportation and the free use of all public utilities.
7. The abolition of all forms of differential privilege.

These are the steps in the evolution of bisocialism, which includes not only the socialization of all ground values and all public utilities, but the establishment of equality of opportunity in all things. The plan is simple,

is it not? Desirable, is it not? Feasible, is it not? Let us see what, if anything, stands in the way.

There is nothing in the laws of the physical world which says nay to any of these propositions. They are all in harmony with the laws of the economic world. Morality can not set its seal of disapproval upon a working plan which will bring equality of opportunity to all men. Nothing in the world hinders the adoption of this beneficent plan except the institutions, laws and customs of the established order. These constitute not a physical, not an economic, not an ethical, but merely a social disutility; a disutility made by man, the concentrated result of the mistakes of centuries.

We are prone to believe, and to act upon the assumption, that all the institutions, laws and customs of the established order have their basis in nature and represent the highest and best thought of the ages upon economic subjects. The truth is just the opposite. All peoples have had higher and better conceptions concerning the institution of property, and particularly of land tenures, than those which dominate the world to-day. In Economics, as well as in matters political, intellectual and spiritual, there was a retrograde movement which culminated in the fall of the Roman Empire. In other directions the lost ground has been regained and great advances have been made in many fields of thought. Economically, however, the *Renaissance* has just begun. Economically, we are just emerging from the Dark Ages.

Considering its time in the world's history and the traits and environments of the people for which it was intended,

the Jewish code as formulated by Moses furnished the best economic working plan which has ever been realized in actual practice. It came the nearest to giving to all men of a given tribe or nation equality of opportunity and a fair return for effort expended of any code which has dealt with the institution of property. It looked upon the land as the heritage of the Jews as a people, and, to prevent its falling into the hands of a few, this code provided that every fifty years each man should come again into his possessions. "The land shall not be sold forever" * is the teaching of the Mosaic code. "The heaven is the Lord's; but the earth hath He given to the children of men," sang the Psalmist.† "Woe unto them that join house to house, that lay field to field, till there be no place," ‡ warned the prophet when the laws of Moses were forgotten and the land owners exploited the labors of the poor. And in portraying the blessed state of the new Jerusalem which was at all times the ideal of his race, the same prophet said in his final exhortation: "They shall build houses, and inhabit them; and they shall plant vineyards, and eat the fruit of them. They shall not build and another inhabit; they shall not plant and another eat." § And he among the Jews of olden time who was said to be wisest of all put into the mouth of the preacher these words: "It is good and comely for a man to eat and to drink and enjoy the good of all his labor" * * *

* Leviticus, xxv: 23.

† Psalms, cxv: 16.

‡ Isaiah, v: 5.

§ Isaiah lxv: 21, 22.

all the days of his life, which God giveth him ; for it is his portion.” *

The people of the United States are largely of Anglo-Saxon, Teutonic, Celtic, and Scandinavian descent. Yet we maintain a system of land tenure which was foreign to the conceptions of all these peoples until it was forced upon them in the days of feudalism. Joseph Fisher, a Fellow of the Royal Historical Society of London, England, in an essay read before that body in 1875, pointed out the fact that among all these peoples the earth was recognized as a common heritage and was originally treated by them accordingly. The same conception which the Jews expressed in the Mosaic account of the creation of man out of the dust of the earth the Celts expressed in a beautiful figure which recognizes the earth as “perpetual man.” Mr. Fisher shows from an extensive historical review that our present system of land tenure is not based upon the conception that the earth is our common mother, but upon the harsh dictum of the Roman, rendered savage by the lust of conquest: “To the victor belongs the spoils.” † William the Conqueror, following the Roman custom, parceled out the land of England among his chieftains to be held by them as tenants of the crown. Under the early feudal tenure the lands were charged with wellnigh the entire maintenance of the State which was then chiefly a military organization. Under this tenure each land owner was obliged to attend the king with a certain quota of men and a certain amount of military

* Ecclesiastes v: 18.

† History of Landholding in England.

supplies whenever called upon in time of war or local insurrection.

In time some of these military vassals became so powerful as to menace the throne; the land owners were all-powerful in parliament; and at the same time the commercial interests of the nation had greatly increased. Consequently, it so happened that when the king desired to reduce the military prestige of his landed lieutenants, they desired to relieve themselves of a great part of the cost of maintaining the crown. The result was that both king and under-lord worked together to reduce, and finally to abolish the military charges upon the land, and to substitute instead a money charge against all forms of property and of business enterprise for the maintenance of the State. By means of this change and the adoption of the system of indirect taxation the greater part of the cost of government has been shifted from privilege (primitively and still chiefly represented by landholding) to production; from ground rents to interest and wages.

The system of land tenure which we have taken by adoption from the Roman Empire caused the downfall of that empire itself. In all conquered countries the lands were parceled out to military chieftains and to favorites of the emperor. In the original domain of the Romans themselves the land was wrested from the people and concentrated in the hands of the beneficiaries of foreign conquest. The people as a whole then had little or no interest either in their government or in their native land. The world knows the result. When the barbarians came down from the North and invaded the em-

pire they found a people composed upon the one hand of the enervated beneficiaries of privilege, and upon the other of a mass of listless and artless slaves. All fell an easy prey to the brute force of the invading hosts. In the language of Pliny: "Great estates ruined Italy."

Bisocialism does not appeal to lawlessness. It proposes to carry out its working plan in conformity with the doctrine that order is the first law of earth as well as of heaven. But this does not imply that the *established order* is sacred. Bisocialism teaches that the established order from an economic point of view is neither sacred nor tenable; indeed, that it is no longer tolerable. But all the changes which it proposes are to be made in an orderly manner. They can all be made under the present forms of law. Not a new principle of administration need be adopted; not a new function of the State need be added. Bisocialism is radical, but not revolutionary. It advocates nothing but simple economic evolution. It does not propose to abolish the State or to violate the law; but it does propose to better the State and to change the law without hesitation wherever it does not conform to the economic needs of the people. It believes with Emerson that

"In dealing with the State, we ought to remember that its institutions are not aboriginal, though they existed before we were born; that they are not superior to the citizen; that every one of them was once the act of a single man; every law and usage was a man's expedient to meet a particular case; that they are all imitable, all alterable; we may make as good; we may make better."*

* *Politics: Essays, second series.*

It is claimed by the advocates of omnisocialism that it, also, is an evolutionary doctrine; in fact, that it is the logical evolutionary outcome of the present tendencies in the established order. Consequently, omnisocialism does not view the concentration of industrial and commercial enterprises in the hands of what are commonly called "trusts" with disapproval, but with approval. Its plan is based upon the contention that this process of monopolistic concentration will go on and on until all such enterprises are absorbed by one giant monopoly; and that then the people in their collective capacity will absorb this trust monopoly and thereafter conduct its affairs for the good of all the people. The government will supersede all other monopolies; but it is claimed that in the benefits of its monopolistic features all will share.

In other words, omnisocialism proposes to encourage the evolution of the worst feature of the established order and, finally, to base itself upon this feature when the latter becomes so bad as to be unbearable. Bisocialism, on the other hand, proposes at once to abolish the evils of the established order, and out of its remaining features to evolve a system which has nothing but that which is economically right for its basis as well as for its purpose and its final goal.

The standard economists also claim the benefits of the doctrine of evolution in defense of the established order. But as Political Economy under their elucidation has been called the "dismal science," so the view of evolution which they adopt is of that dismal and despairing variety which is strongly tinctured with Malthusianism.

According to Malthus the human race tends to increase at a geometrical ratio, while the means of subsistence can be made to increase only at an arithmetical ratio. Between these two ratios there is the same difference as between the results of a multiplication, which doubles a number and then repeatedly doubles the product, and an addition, which simply adds the same number time after time. For instance, the number 1, if used in geometrical progression, gives as a result the series 1, 2, 4, 8, 16, 32, 64, 128, 256, etc.; while the same number, if used in arithmetical progression, gives as a result the series 1, 2, 3, 4, 5, 6, 7, 8, 9, etc. Assuming that in a new country population tends to double itself every twenty-five years, Malthus argued that at the end of two centuries the ratio of population to subsistence would be as 256 to 9, and in three centuries as 4,096 to 13. Consequently, according to this doctrine, the evils of the economic world are now and ever have been caused by overpopulation. The only possible remedy, in this view, is one which will check the growth of population, especially among the poor, where propagation has always been greatest. Malthus, who was a clergyman, taught that Providence has provided certain natural checks upon population, such as a result from the loss of life through famines, pestilences, and wars. And that aside from these there remains only the prudential check by virtue of which men and women, especially among the poor, may voluntarily and persistently refrain from propagating their kind.*

* For a masterly and complete refutation of Malthusianism in its economic aspect, see Henry George's *Progress and Poverty*, Book II.

Since the days of Malthus, who published his work on population in 1798, the decimation of population by famines, pestilences, and wars has largely ceased, and the remedy by means of the prudential check does not appear to have been extensively adopted, at least by the poor. Current writers, therefore, have merged the doctrine of Malthus into that phase of the doctrine of evolution which puts great stress upon the theory of the survival of the fittest. It is now maintained that the reduction of great classes of people to that state of poverty which disqualifies and exterminates its victims is but the working out of a natural law by means of which the weak are crowded to the wall in order that only the fittest may survive and perpetuate the race.

This modern doctrine, like its predecessor, does not exactly serve its purpose when applied to economic phenomena. In too many cases this alleged providential working out of natural laws does not destroy the unfit, but simply disqualifies them from self-maintenance and throws them into poorhouses, jails, and asylums, there to become a burden upon those who have shown themselves to be fit to survive. This has led to a discussion among the present day defenders of the established order, looking toward the reduction of the number of those whom society may adjudge to be unfit, by means of such restraints, not only upon marriages, but upon their personal liberties as will prevent their bringing fellow-beings into a world already apparently overcrowded.

But even this presumptuous, arbitrary, and tyrannical action by the State is not deemed sufficient by the more

pronounced advocates of the elimination from society of those who are deemed to be unfit to survive and to perpetuate the race. The president of one of the leading universities of the United States has given his approval to the plan of exterminating those who are deemed most unfit by refusing to them even the hand of charity, and thus allowing them to die. He says:

"One thing is certain, in the words of Dr. Amos G. Warner, that the 'function of charity is to restore to usefulness those who are temporarily unfit, and to allow those unfit from heredity to become extinct with as little pain as possible.' Sooner or later the last duty will not be less important than the first."*

In this statement there is a suggestion not only that the State should allow these unfortunates to die for want of charitable assistance, but that it should affirmatively assist in their removal in some manner "as painless as possible." To this extremity will the special pleaders of privilege yet be driven in order to avoid recognition of the fact that a majority of these delinquents are simply victims of institutional wrongs which depress the margin and, consequently, oppress the poor. It is not that these people are so weak from heredity or any other cause that they can not cope successfully with their natural environment. It is because their normal environment has been destroyed, and because from birth they are surrounded by conditions which no man, in normal conditions, needs

* "Sources of Political Degradation": David Starr Jordan, LL. D., President of Leland Stanford University, in *Northwestern Christian Advocate*, June 24, 1894.

to meet, that they are reduced to such dire extremities. The remedy is not to kill them in cold blood, nor to let them die as painlessly as may be, nor yet to leave them to the hand of charity. It is to raise them to their normal level and then gradually to raise that level until no human being will dare to determine, much less to declare, that any man created in the image of his Maker is unfit to survive.

It may seem to some, and especially to those who have been most thoroughly indoctrinated with the idea that for present economic evils there is no remedy, that even the full program of bisocialism with its consequent raising of the economic margin can not render unnecessary the terrible struggle for mere subsistence—a living wage—in which the masses of the people are now involved. Let such persons consider this proposition: Suppose that in a given community there are available nine jobs, on the average, for every ten men, with no chance of self-employment. In this condition one man must always be idle, and a continuous struggle among these laborers for employment necessarily follows. They at once bid down to a mere living wage, and even then the struggle will not cease. The one unemployed man continues to be a disturbing factor, and the whole ten men live constantly in want or the fear of want. They are slaves working and living in the guise of free men.

Suppose now that by the introduction of bisocialism conditions in that community are changed only to the extent of making ten available jobs for every nine men and of furnishing ample self-employment upon a normal

margin. The laborers of that community at once pass from economic slavery to economic freedom. Wages rise from mere subsistence to what can be made by self-employment upon the margin. Instead of one man constantly seeking a job to the abasement of himself and the terror of his fellows, a job is always seeking an extra man. The man at the margin, not the employer, becomes master of the wage situation. If the tenth job finds a man, it must take him from the margin; it must induce him to give up profitable self-employment. The employer, however, can not be exploited by his laborers. He must so conduct his business that he can afford to pay the normal marginal wage, but that is all; and of this he would have no reason to complain. The prosperity of the wage earners would furnish a brisk market for his products and he, as well as they, would be relieved of the terrible strain and uncertainty which attends production in the established order. The average employer would be infinitely better off under bisocialism than under the present system.

Again, it may seem to some inequitable to take from the owner of a farm approximately one-half of the value of its produce in taxation, and take nothing from the income of a man who has a like sum invested in, for instance, the banking business. But it must be remembered that, once established, bisocialism would regulate values in such manner as to equalize all incomes resulting from equal investments and equal expenditures of the same grade of labor-power. Suppose that, under bisocialism, two men of equal ability, energy, and thrift, and with equal capital, should engage, the one in farming, and the

other in banking. The farmer invests \$20,000 in land-forms. He knows in advance that the State will take each year the present worth of the rental value of his farm in taxes, and he pays a price based upon such a system of taxation. If the current rate of interest is 5 per cent per annum, he buys at a price which will net him 5 per cent after the payment of the tax. Other things being equal, he could purchase about twenty times as much land with \$20,000 as at present. In these circumstances the taking of the tax would not harm him a particle.

On the other hand, the banker invests \$20,000 in his business. He pays no tax at all upon this investment, but his income from it will not exceed 5 per cent in ordinary circumstances. If it did, other men would withdraw money from other forms of investment and go into the banking business. It is a mistake to assume that under bisocialism there will be any discrimination in favor of investments in bank stocks, bonds, etc., simply because these, in common with all other things except land-forms, will be exempt from taxation.

Still other persons may object to bisocialism because it does not condemn the taking of interest, and eliminate this feature from our economic life. But physical science might as well condemn the tides of the sea and undertake to eliminate them from the phenomena of nature. Economic interest arises out of the fact that labor-forms may be so circumstanced as to overcome or mitigate the disutility of time, and as long as time lasts economic interest will accrue. And as long as economic interest accrues it

must be distributed in the processes of the market, and commercial interest will be received and paid.

Nor is there the slightest reason for looking upon the payment of interest, in normal conditions, as an economic evil. On the contrary, it fulfills a beneficent function. In the natural order, a generation of young men come into the industrial field as a generation of older men seek to leave it. The latter may have accumulated labor-forms, or their economic equivalent in money, for much of which they have no present need. The younger men are so circumstanced that they can use these accumulations to advantage in overcoming the disutilities of time. By the payment of interest these two classes are brought together and, in normal conditions, both are benefited. Taking the community as a whole, there is a prevention of great economic waste, inasmuch as labor-forms, unused, rapidly deteriorate, and money-forms stored away deprive the people of their requisite medium of exchange.

Under bisocialism the rate of interest will probably be greatly reduced because of the removal of artificial disutilities which now compel many men to borrow. In normal conditions all borrowing will be purely voluntary, and the desires of the marginal borrower will control the rate of interest. But under bisocialism, also, a given income will give greater satisfaction of desire because of the lowering of prices which will follow the abolition of all artificial disutilities. The current rate of interest may be reduced one-half, but if the cost of living is also reduced one-half, the lender will be relatively as well off as before.

Under bisocialism there will not arise and persist a

class of lenders not (at some time) laboring. Nor will there arise and persist a class of borrowers habitually exploited because of their necessities. The evils of the present system of usury will disappear, but interest as an economic phenomenon will persist. The number of voluntary interest-payers will probably increase. If so, this will indicate an increase of economic opportunity and prosperity in the community so affected.

The evolutionary program of bisocialism does not purport to be able to eliminate from human life all the struggle for subsistence. It recognizes that this struggle has its beneficent side, and that without it and the necessity for it, all progress would end. But it distinguishes between that struggle which is necessitated by nature for overcoming the disutilities of matter, time and space, and that fiercer struggle which is necessary only because of those institutions, laws and customs which conflict with the laws of nature and create false economic and social disutilities.

Two men may go out together and unite their energies in overcoming some natural disutility for the satisfaction of their common desires; or they may expend an equal amount of energy in contending between themselves for the possession of some superior natural opportunity for satisfying their desires. The former struggle is economic; it uplifts, it ennobles. The second is barbaric; it degrades, it disqualifies. The former is the struggle justified and contemplated by bisocialism; the latter is the struggle exemplified and encouraged by the established order. The one involves an evolution by which man overcomes the

disutilities of the natural world by means which are in harmony with his own highest physical, intellectual, social and moral development; the other involves an evolution that exempts the successful from further physical struggle, while increasing the physical tasks of the unsuccessful; which gives to society as a whole a one-sided intellectual development, and which puts the institution of property and the entire field of industry and exchange upon a low moral plane. When the evolutionary working plan of bisocialism is adopted, the struggle of man with man for mere opportunity will cease, those disutilities which are purely social will disappear, and all men will work together in overcoming the disutilities of matter, time and space.

CHAPTER XIII.

OF THE INDIVIDUALIZATION OF VALUES.

To own the source of labor products is to own the labor of others; to own what you produce from that source is to own only your own labor. Nature furnishes gold mines, but men fashion gold rings; the right of ownership is radically different.

Louis F. Post.

The most fundamental step in the program of bisocialism is the socialization in taxation of all ground values. As has been shown in former chapters, this step will make it possible to adopt the economic standard of value, and to maintain a system of currency issued in payment for labor, services and labor-forms furnished to the State, and redeemable in payment of taxes. It will solve the money question. It will also eliminate from our economic life the basic form of monopoly—the monopoly of natural opportunities. It has also been shown that the socialization of all ground values will furnish the only true basis for the solution of the question of the ownership, operation and control of public utilities; that it will solve the great question of transportation, and, above all, that it is the only economic policy that will raise the economic margin to its normal position and make it possible for all men, with equal opportunities, to satisfy their desires with the least exertion. In raising the economic margin this policy will give to the marginal laborer the full fruits of his labor-power and thus solve the wages question.

But however important may be the socialization of all ground values and all public utilities, when this has been accomplished it will be no less important that all labor values and capital values shall be individualized to the highest degree.

So important is this phase of the program of bisocialism that, at the present time, nearly all persons who favor the appropriation of ground values for revenue and the municipalization of all public utilities class themselves as individualists rather than socialists. But any movement which seeks to overcome the evils of the established order must emphasize in every possible way the affirmative steps in its program. A negative doctrine does not move people to action. Neither does laying the greatest stress upon the negative phases of a reform movement induce people to enlist under its banner. The two most fundamental, the all-inclusive steps in the forward movement in the realm of Economics, are distinctively socialistic. It is the socialization of ground values and of public utilities that gives character to the entire movement as a governmental policy, and that aptly gives to the movement as a whole the distinctive name of *Bisocialism*.

It must at all times be recognized, however, that the final purpose of these socialistic steps, as of the whole movement, is to secure economic freedom for the individual. Any form or phase of socialism which does not tend directly and persistently toward the immediate freedom of the individual has no place in the program of bisocialism. True socialism and true individualism are not in any wise

antagonistic or incompatible. They are the two halves of a consistent whole.

The doctrine that every man is entitled to all the values distinctively created, directly or indirectly, by his labor-power necessarily follows, if all men are entitled to personal freedom. To say that a man is free is to say that he is sole owner of himself. But if any man owns himself, he is entitled as of right to his own labor-power, and to have exclusive control of its exertion. If this is true, then it also follows that he owns and is entitled to control all the distinctive results of his own labor-power. He can not own and control his labor-power, if another man, without his consent, can own or control the distinctive results of his labor; and he can not own himself, if another man, without his consent, can own or control his labor-power; nor can he own himself, if another man, either by force or by law, can own or arbitrarily control the land-forms upon which his labor-power must be exerted, or upon which he must stand in order to exert his labor-power at all.

Property in labor-forms (including capital-forms) has its economic basis in the ownership by man of himself—in the inalienable economic freedom of the individual. If any other man or any number of men under the guise of government, or under the sanction of the law, can despoil him of any of his labor values or capital values, then to that extent is any man, so despoiled, a slave. In whatever form economic slavery may appear, its essence is simply unrequited toil.

The taxation of labor values and capital values is usu-

ally defended upon the ground that the State protects man in the acquisition, use and enjoyment of labor-forms. But in a former chapter it was shown that in the case of a labor-form there is no increment of its value to which the State may point and lay claim as having created it or caused it to accrue. It has also been shown that all the value of any labor-form directly accrues from the exertion of some particular person or persons who give to such labor-form its distinctive utility. So far as any favorable action or protection of the State is concerned, the value of the labor-form is lessened by the extension and improvement of the market. On the other hand, all the measurable benefits derived from the protection of the State are directly and fully reflected in ground values. In this view it appears that the entire value of a labor-form should be left to the person or persons whose labor has given to it that distinctive utility which results in value; and that the State should resort to ground values for its sole source of revenue.

It may be said, also, in opposition to the taking of labor values and capital values in taxation that the citizen owes the State no more than the State owes the citizen. From a civic point of view a good citizen is of as much benefit to society as society is to him. From an economic point of view the same thing is true of a producer either in industry or in exchange. Every man who enters the market either as buyer or seller tends to make the market more general, and to increase those gains to society as a whole which result from the socialization of utility. Thus we see that both the benefits of the State to man as an in-

dividual and of man as an individual to the State are immeasurable. There is no more reason why the State should attempt to collect compensation for an immeasurable utility conferred by it upon a citizen, than that he should demand a bonus from the State for the immeasurable utility which he confers upon it by his participation in industry and exchange.

Economic Science is the science of measurable utilities, and its decrees limit the State in the latter's attempt to put a price upon the benefits which it confers, to the only values which reflect such benefits in measurable form, viz., ground values. The attempt of the State to measure in an arbitrary manner its immeasurable benefits, and to reap where it has not sown by taxing labor values and capital values, is so contrary to the laws and principles of Economic Science that it has always resulted in failure and always must so result. No State has ever yet succeeded in taxing labor values and capital values with any degree of fairness, fullness, or success in any way. Such attempts have always been disappointing to the State and disastrous to large numbers of its citizens. No one who has ever honestly given this matter even a casual investigation has failed to realize that the taxation of personal property, so-called, is utterly unfair and ineffectual; and no one who has even a passing knowledge of the true canon of taxation has failed to realize that to attempt such taxation is an egregious economic blunder.

One of the most comprehensive, thorough and trustworthy exposures of the inequalities and iniquities of taxation under the present system may be found in the Eighth

Biennial Report of the Bureau of Labor Statistics of Illinois (1894). This official report discusses not only facts, but also principles concerning the question of taxation, and closes with a recommendation that, as soon as practicable, site, or ground values be substituted in taxation for state purposes, the value of public utility franchises being treated as a form of site value.

Among many other things, this report shows that for the year 1894 Cook county, containing the City of Chicago, reported for taxation but 397 fire and burglar-proof safes, while Kane county, containing no large city, and but one-eighteenth as many people, reported 483 such safes for taxation. The average values, by counties, of fire and burglar-proof safes as reported in sixteen counties for that year ranged from \$19.54 to \$93.30, Cook county being next to the lowest in its valuations. In Cook county a watch or clock was reported for every 157 persons; while in Macon county a watch or clock was reported for every 12 persons, the average values also being higher in the latter county than in the former. The pianos listed in the state ranged in average value from \$28.39 in Cook county to \$84.61 in Hardin, a county without a railroad, in the extreme southern part of the State. For the same year the value of all the diamonds listed for taxation in Cook county, with its population of 1,250,000, was but little more than \$17,000, the law then requiring all property to be listed at its fair cash value. And yet it is sometimes argued that the present system must be maintained in order to prevent persons who wear diamonds from escaping taxation!

Between the years 1872 and 1897 the laws of Illinois required all personal property to be listed for taxation at its fair cash value, and all real estate (not specially exempt) at its fair cash value, estimated at the price it would bring at a fair, voluntary sale. From 1873 to 1893 the population of the State increased over 50 per cent. Yet the personal property of Illinois as listed for taxation in 1873 amounted to \$287,292,809, as against \$145,318,406 in 1893, a decrease in twenty years of \$141,974,403. The valuation in 1873 was \$113.11 per capita, against only \$37.98 in 1893.

It may be said in reply to this that by common acquiescence the assessors of the State gradually changed from valuations based upon full fair cash values in 1873 to about one-third of such values in 1893 as the basis of their assessments. In a general way this is true, although such action was contrary to law, the statute during all that time remaining unchanged. But a further examination of the facts shows that upon this hypothesis the matter of undervaluation is in no wise improved, inasmuch as the reductions in value were far from uniform throughout the state. In Hardin and Calhoun counties (both without railroads but with people of a high grade of honesty—for which they were duly punished with high taxes) there was an actual increase of valuations of 3.56 per cent in the former and 13.06 per cent in the latter. In all other counties there was a decrease in valuations ranging from 8.18 per cent in Massac, to 70.84 per cent in Mason county, making an extreme variation in valuations of nearly 84 per cent among all the various counties of the

State. As a rule the rate of decrease of valuation was greatest where the increase of actual value was greatest and *vice versa*; and as a rule the strictly agricultural counties paid more taxes according to population and to the actual value of their property than the counties reporting other kinds of property.

In the same term of years the process of changing (contrary to law) from the actual fair cash value to some fractional part of it as a basis of taxation was applied to real estate, and every county in the State showed a decreased valuation for the twenty years, ranging from a decrease of 1.33 per cent in Winnebago to 60 per cent in Clay county. Under a system in which the entire ground value of every piece of real estate was taken in taxation every year no inequalities in the assessment of real estate would be possible. All buildings and other improvements would then be exempt from taxation instead of, as now, being assessed with all the inequalities of personal property.

It is objected by many that the abolition of personal property taxation would permit bankers and others who have investments in stocks, bonds, and mortgages entirely to escape taxation. They practically escape taxation now. In 1894 all the bankers and brokers in the county of Cook (including Chicago), other than national banks, listed for taxation under the head of "moneys of banks (other than national), bankers, brokers, and stock jobbers" the small sum of \$43,925. This included money on hand and in transit, together with the amount of funds in the hands

of other banks, bankers, brokers or others, subject to check, and other cash items not included in the above.

Less than one year before the date for the assessment of 1894, in order to allay the fears of the public concerning the financial condition of the country on account of the panic then developing, the state auditor of Illinois published a statement of the condition of 27 leading banks of Chicago (other than national) as shown by their sworn reports made pursuant to law. From this statement it appears that these 27 banks alone had on hand on June 5, 1893, cash to the amount of \$7,877,637.97; due from other banks, \$9,347,333.13; and checks and other cash items, \$1,766,800.67, or a total of taxable moneys under these heads of \$19,001,771.67. The amount listed by all banks in Cook county, other than national, eleven months later was only \$43,925. What, in the meantime, became of the difference, \$18,947,846.67? And yet we pretend to tax bankers and brokers to the same extent and in the same way as other people.

We also pretend to tax the credits owned by the rich, but the illusion is just as great as in the case of the taxing of moneys. For the year 1894 all bankers, brokers, etc., in Cook county listed for taxation credits to the amount of \$10,000 as reported by the state board of equalization. On June 5, 1893, the 27 banks of the City of Chicago above referred to reported to the state auditor the possession of taxable credits, after making all lawful deductions, of \$1,058,105.25. Between that date and May 1, 1894, these taxable credits had shrunk to \$10,000, the shrinkage in eleven months being \$1,048,105.25.

As in the case of other forms of personal property, the evasion of taxation of moneys and credits is not uniform throughout the State. The evasions are greatest where there are the most moneys and credits subject to taxation under the law. At the time when the bankers, brokers, etc., of Cook County (including Chicago) reported for taxation only \$43,925, the same classes in Peoria county reported \$279,684. In Cook county the amount per capita was less than four cents; in Peoria county it was nearly four dollars. In the case of credits the classes in question in Cook county reported \$10,000, while in Winnebago county the amount was \$253,514. The amount per capita in Cook was less than one cent; in Winnebago, more than six dollars and a quarter.

The conditions described in great detail in the official report, from which we have quoted facts and figures concerning only a few of the most flagrant abuses, are not confined to the assessments of 1893 and 1894, nor to the State of Illinois. In every State in the Union similar conditions now prevail. The tax evasions are greater in Chicago than in Peoria because the opportunities are greater, and because the pressure of artificial competition for the use of land-forms drives men to such expedients as evading taxes at the risk of the penitentiary in order to excel, and often in order to survive. In New York the evasions are greater and the inequalities more glaring than in Chicago; but local conditions considered, the inequalities of personal property taxation everywhere are about as bad as they can be. The rich everywhere conceal their property and evade their taxes to a vastly greater

extent than the poor. The poor have so little that it can not well be hidden; it must be openly used all the while. In a similar way, the property of a farmer is open to the inspection of every one and its extent and value are known to all around him; but in the city it is usually impossible to ascertain what any man is worth in personal property, if he chooses not to have it known. But in either city or country, the more a man is worth the easier it is for him to conceal a relatively large part of his personal property and effects from the assessor. In neither city nor country, however, can he conceal his land-forms.

The primary fault is not in the people who evade their taxes; it is in the system of taxation.

"This system is in its nature so easily evaded by actively conniving with assessors or passively accepting their fraudulent favors that it offers premiums for fraud and perjury, which must be paid by the honest and truthful. Such a system tends to suppress all honesty and good faith in connection with taxation; it demoralizes the whole community. Even the respectable rich seem to be no more proof against lawlessness when the law pinches them at the pocket, than the poor when it pinches them at the stomach.

"And why should personal property be taxed? Is the supply of personal property a thing to be kept in check, like the liquor traffic in some places by high license, or dogs in others by a high dog tax? Or is it something that the community needs? something that the more of it there is in the community, the better off the people of that community may be? Is it a friend to be invited in, or an enemy to be driven out? No man would experience any difficulty in answering for himself. He wants personal property. The more he gets, the better he is satisfied. Neither he nor his family regard it as a nuisance to be suppressed. Yet every personal property tax increases his difficulty in getting and keeping personal

property. Every such tax assists in driving that kind of property out of his household and keeping it out. Every such tax tends to lower the quality of the personal property he can afford to own. And every such tax, by thus diminishing demand for personal property, tends to diminish opportunities for employment in making and selling it.

"This species of taxation should be abolished."*

Leaving now the question of the taxation of personal property—labor values and capital values—let us examine, briefly, certain property values, complex in their nature, with reference to the question of their individualization or socialization. These are the values of mining properties, oil fields and similar land-forms. Although held under ordinary land tenure, these properties partake of the nature of monopolies since the territories which they collectively occupy are limited in extent; yet they are not monopolies under the definition we have formulated, since their smallness territorially is not a limitation placed upon them by law but by nature. Neither are they public utilities, since they require neither the private use of public property nor the special exercise of any public power to make them effective in private hands; no franchise is necessary for their use or operation. Subject only to the limitation of supply, the values of these land-forms do not differ from those of land-forms put to ordinary uses, and the application of the full program of bisocialism will completely socialize them through the socialization of their ground values, without making it essential for the State to enter upon their ownership, operation and control, as is necessary in the case of public utilities.

* Report Illinois Bureau Labor Statistics, 1894, pp. 353, 354.

Let those to whom it may seem that the full program of bisocialism will not be sufficient to eradicate all the evils which now attend the mining, the oil and similar industries consider the following:

If all the coal lands in the United States were open to use and operation, in normal conditions, there would be no scarcity of coal at reasonable prices. As it is, the coal fields have been bought up by great corporations, and more good mining opportunities are held out of use than are used. The corporations owning these coal lands are closely affiliated with railroad companies, so that the owners of the mines control the transportation of coal and can secure discriminations in freight rates favorable to themselves and highly unfavorable to "independent" competing mine owners and to the public. Monopoly of the natural opportunities for mining coal and of transportation facilities forms the basis of all that is evil in the coal situation to-day. The same thing is true of the situation in all other mining industries and in the oil fields.*

The full program of bisocialism will permanently correct both of these evils. If the entire selling value of all natural opportunities were taken annually by the State in taxation, the price of mining lands and oil fields would fall to the present worth of one year's ground rent in each case. This would bring the price of mining properties within the reach of many more investors, but no man could afford, even for one year, to hold any valuable mining opportunity out of use. In every year he would lose

* For a full demonstration of this fact see Henry D. Lloyd's *Wealth against Commonwealth*.

the entire income from the value of the mine unless he put it to use, and this loss could never be recouped, as now, in increased future selling value. The tax would increase each year along with the value and absorb it substantially all.

Again, under bisocialism, all transportation facilities would be owned, operated and controlled by the State, and all freight charges would either be uniform at a flat rate regardless of distance or entirely free. This would practically eliminate all differences of location in mining properties and put all mining enterprises upon an equal footing as to all markets in the United States. In such circumstances, and in the absence of any discriminating duties, it is impossible for mining enterprises of any character to be monopolized, or for the prices of coal or other minerals, or of mineral oils, to be maintained above the prices arising in a normal market.

The trust monopolies which exist to-day, and which have already reached their culmination for this decade, are doomed to almost immediate dissolution unless based upon one of the five primary sources of monopoly, viz.: Patents; tariffs; transportation rebates and discriminations; the private ownership, operation and control of public utilities, including railroads; and the private ownership, under present tenures, of natural resources and opportunities.

Trust monopolies based wholly upon patents are relatively transient, being limited by the life of the patent or patents involved. Those based upon tariffs are more or less insecure because of tariff revisions, and of the fact

that so many may compete for the differential privileges involved as to reduce the advantages to a nominal basis. In order permanently and surely to profit by tariff discriminations, the trust monopoly must become compound and include differential advantages in transportation, or, better than all, the control of the home supply of the articles covered by the tariff discriminations. A trust monopoly based solely upon transportation franchises, rebates, or discriminations is relatively transient, as franchises are nearly all limited in duration and rebates are more or less uncertain, as they may be disturbed by law or discontinued from many causes. But a trust monopoly based upon a monopoly of the natural sources of supply is built upon a rock and will endure as long as the established order is maintained. Such a trust monopoly, as the Standard Oil Company, naturally draws to itself railroad rebates and discriminations (the Standard Oil Company possessed these at the beginning), the ownership of franchises, the advantages of protective tariffs, and the differential benefits of patents in the processes and contrivances of production. The trust monopoly in the anthracite coal regions is of the same nature, and the bituminous coal fields are fast falling into the hands of a similar all-inclusive trust monopoly.

If the people really want to destroy these so-called "trusts," they must abandon the fiction of taxing the capital stock, the bonds, and the working plants of these great corporations, and apply the whole power of taxation to the monopolistic feature that is the basis of them all. With the full program of bisocialism in force, with its

absorption into the public treasury of the differential values of the natural opportunities owned and controlled by them, not one of these trust monopolies could survive a single year. The exemption of the working plants and the products of such enterprises, together with the cheapened price of the natural opportunities, would create such an impetus in these fields of industry as the world has never seen. Labor-power would be in great demand, and coal and oil would be both plentiful and cheap.

There is an economic reason for the complete socialization of railroads and all other transportation facilities by means of governmental ownership, operation and control. It is in this way only that the disutility of distance may be overcome as between different communities, and that all producers, with regard to this disutility, may be put upon a plane of substantial equality. This is also the only means of progressively raising the normal economic margin after it has been restored through the socialization of all ground values.

But there is no economic reason for the complete socialization of mining and oil-producing enterprises in a manner involving governmental ownership, operation and control. All of the equality of opportunity possible in these enterprises will be brought about when ground values and transportation facilities have been fully socialized. But if it be conceded for the sake of argument that after such socialization of ground values and of the means of transportation, conditions may still arise which justify or demand governmental ownership, operation and control of mining and oil-bearing land-forms on the ground of ex-

pediency, yet the complete socialization of their ground values must first be accomplished.

It is idle to talk of the government taking over either mining properties or private land-forms furnishing transportation facilities, until the prices of all land-forms have been reduced to their values for present use and occupation. It would be economically unwarranted for society as a whole to pay to present beneficiaries of its special privileges the present values of land-forms. The present values of all land-forms are based, not upon their utilities for the present productive purposes alone, but also upon their utilities for future monopoly and speculative purposes. Society as a whole by its institutions, laws and customs has given to land-forms all the values which they possess in excess of one year's ground rent in each case. By a change of its institutions, laws and customs to the extent of adopting the program of bisocialism, society can not acquire and retain the differential values of its land-forms; these values under bisocialism will simply disappear. When they have disappeared, and not till then, society can acquire land-forms for the purpose of direct socialization without buying from its beneficiaries that which it has distinctively created and given them without any consideration whatsoever. So that if public ownership of mines and oil fields is eventually to be adopted, the full socialization of their ground values is necessarily the first step; it can not be dispensed with in any event. But Economic Science clearly points to the individualization of all such productive enterprises, subject only to the socialization of all ground values every year.

CHAPTER XIV.

OF INADEQUATE REFORMS AND REMEDIES.

National prosperity and rich crops have not thus far helped the widow and the orphan. High prices only make poverty more pinching. The hard-earned dollars buy so pitifully little.

Isabelle Horton.

From an economic point of view the supreme test of every proposed social reform or remedy is this: Does it tend to raise the economic margin? If it does, then to this extent it will permanently benefit the whole people. If it does not, its benefits are limited, at best, to a part of the people, and its ultimate effect is usually to depress the margin. While such a movement may benefit those who are immediately engaged in it, or are the direct beneficiaries of it, the condition of those who are below these in the economic scale is made relatively worse. It is the purpose of those engaged in a given social reform movement to obtain better conditions for a certain class of people. But in spite of all that is done the differential privileges which made these people its victims by depressing the margin still remain; and as long as they exist a part of their baleful effects may be shifted from some persons to others better able to bear them, but the burden as a whole is in no wise lifted.

Since the Civil War there have been in the United States several movements of a reform nature that have attracted wide attention. Some of these have sought to

benefit large numbers of people by reforming persons themselves, as in case of the temperance movement. Others have sought to benefit the same class of people by changing their environment in so far as it influences their personal habits, as in case of the crusade for the prohibition of the liquor traffic. Other reforms have sought to modify the laws of the State which affect certain economic conditions, without proposing any fundamental economic changes, as in case of the greenback, populist, free trade, and free silver agitations. While still other reforms seek to affect economic conditions by the coöperative action of certain classes of people, the personal habits and social environment of the people and the laws of the State remaining substantially the same. These reforms are exemplified by the grange movement of the early 70's and by the present day organization of trade unions.

None of these movements is devoid of merit, and all are the results of strivings for better things. Some of them are highly meritorious in themselves and have enlisted the sympathies and labors of many very commendable men and women. But neither singly, nor in any combination, nor all together can they solve the economic problem. Each involves a glimpse at least of a great truth, but not one of them has even paved the way for the vital and all-inclusive step which, when taken, will benefit all men by raising the economic margin.

It is but a repetition of former discussion to say that the inculcation of temperate habits among the poor, while it benefits them morally and physically as individuals, does not tend to raise the economic margin, but rather to de-

press it. Anything which renders a neighborhood more desirable for residence purposes tends to increase its ground rents. The higher the ground rents the greater the ground values to those who desire to own their own homes. Under the present system of taxation and land tenure a sober, thrifty, and industrious people are fined by increased cost of living for maintaining these virtues.

It is a mistake to assume that drunkenness is a prime cause of poverty; rather is it true that poverty, or at least that economic condition which breeds poverty, is a prime cause of drunkenness. These facts are beginning to be understood and appreciated by some of those who have consecrated their lives to the temperance and prohibition movements. In her later years Miss Frances E. Willard stated over her own signature that "The present economic condition of the country, the misery of the millions of our people, the vast number of the unemployed, and the still larger number forced into unnatural employment at small wages, call for reforms which, if they could but be brought about, would vastly diminish the tendency to drink." And in speaking of the proposal of Henry George for the appropriation of ground rent for the sole revenue of the State, she said that she recognized in this movement "an effort to establish a principle which, when established, will do more to lift humanity from the slough of poverty, crime and misery than all else; and in this I recognize it as one of the greatest forces working for temperance and morality." *

* Letter to Chicago Question Club, September, 1894. Published by the Club.

In the first of these quotations Miss Willard graphically pictured the results of a depressed economic margin, and distinctly showed that she realized that the depression was unnatural and caused by some force outside the victims themselves and beyond their control. In the second passage quoted she did not hesitate to recognize and advocate the adoption of the remedy that will do more than "all else" to extirpate poverty, crime and misery. This is strong language and shows that she fully appreciated the fact that the socialization of ground values in taxation is the fundamental economic reform.

The temperance movement made its appeal to the individual, and sought simply to change him and his habits. The prohibition movement goes further than this, and recognizes that the evil of intemperance has a social and economic aspect; consequently its appeal is made not alone to the individual, but also to the makers of the law. For this reason the prohibition movement has entered the field of political action.

Another agitation for reform which necessarily entered the field of politics was the greenback movement. This movement had behind it the great economic fact that the government can issue and maintain at par paper money to the amount of its current annual expenditures without any means of redemption other than the full and free acceptance of such currency in receipt of taxes. This fact, however, was never clearly seen by the greenbackers themselves, and their party platforms and recognized literature were burdened with projects for the issuing of too large, and even of unlimited amounts of paper money without

any feasible plan for redemption at all. Besides this, the greenbackers attempted to create a primary reform in a matter of secondary importance. The money question, however grave, is not the fundamental economic question. An improved or even a perfect currency system constitutes but an additional advantage of good government, and its measurable benefits will inevitably be reflected in ground rents and ground values, and will surely inure to those who are enabled by law to appropriate and enjoy these forms of value. This is also true of all the measurable benefits which would accrue from the remedies proposed by tariff reformers and by the advocates of the free and unlimited coinage of silver at the existing ratio of 16 to 1. It may be admitted that metallic money based upon two barter metals is less subject to monopoly and to private manipulation in various ways than if based upon a single metal, and that the parity of the two metals could be maintained indefinitely by arbitrarily making both an unlimited legal tender for all purposes public and private. But the bimetallic standard, if adopted and successfully maintained, would not conform to the true economic standard of value. It would still practically ignore the disutilities of space and time. In itself it would contain no distinct recognition of the greatest of all monetary principles—the principle of government credit-forms redeemable in receipt for taxes.

The distinguishing feature of the populist movement in addition to its demand for "fiat," or practically irredeemable paper money, is its demand for the loaning of this money to the people, particularly to farmers, at a rate

of interest much below the ordinary commercial rate. This was one way in which the large increase of paper money was to be put into circulation. Another way was through the erection by the government of great public works. Neither of these plans has any economic basis. If the money were loaned by the government, as demanded, upon the ordinary basis for security, those who needed money the most could get none at all, while those who needed it the least could get it readily. What the people need is not the loan of money by the government at any rate of interest, high or low, but an opportunity to produce upon a normal margin. To the man upon an artificially depressed economic margin the gift of a mere advantage in interest rates would do no permanent good. The advantage would be taken from him in increased ground rents.

The effect of government expenditures for public works is too well known to require statement. It is to increase the value of all land-forms in the vicinity of such works to the differential advantage of the land owners, as owners, and without any measurable benefit whatever to the land users, as users. The inevitable result is an increase of ground rents. Bisocialism would expend money for public works—much more than at present. But it would appropriate substantially all of the increased value of neighboring land-forms in the reimbursement of the State for its expenditures and for further improvements for the benefit of all the people.

The agitation in favor of lower tariff does not involve any fundamental reform. On the other hand, it tends to

perpetuate the established order by making it a little more tolerable for certain classes of producers. It calls for a tariff for revenue only; the true economic reform calls for no tariff at all. The working plan of bisocialism recognizes a natural source of revenue for the State, and provides a simple means by which this source may be utilized. A tariff for "revenue only" creates artificial differential privileges which some may enjoy at the expense of others. The socialization of ground value for revenue not only fails to create any artificial differentials, but it serves to obliterate all natural differentials and to put all men upon a plane of equal external opportunities.

It has been shown in a former chapter that neither the principles nor the working plan of bisocialism recognizes as beneficent the creation of differential privileges for the so-called protection or encouragement of home industry. If all the institutional shackles were removed from industry and exchange, and men were allowed to produce freely upon a normal and normally improved economic margin, home industry would need no further protection or encouragement. In the meantime, during the transition period, if the people so desire, the so-called protective principle can be carried out as hereinbefore described without any reference whatever to the system employed in taxation.

Aside from the temperance movement, which appealed to the individual, and the other movements mentioned, which have involved political action, two other movements of general interest have arisen in the United States since the Civil War. These differ from all the others in this: They seek to reach their respective ends neither by indi-

vidual effort and reform nor by direct political action; but by coöperative and concerted action to change economic conditions, the laws of the State remaining substantially the same. These are the farmers' movement, known as the grange, and the movement among wage earners by virtue of which they have formed themselves into trade unions.

The grange had for its central thought and purpose the elimination of the "middle man." Instead of selling their grain to local buyers, farmers undertook to ship direct to Chicago and other great grain markets. And instead of buying their agricultural implements and other supplies of local dealers they sought to buy direct from the factory and the wholesale house at factory and wholesale prices.

In doing these things the farmers ignored the fact that the so-called middle man has economic functions to perform, chief among which is the function of overcoming, for others, the disutilities of space and time. With reference to shipping their own grain the farmers met great obstacles in the matter of getting proper shipping facilities when needed, and reasonable prices in the grain markets for storage and other necessary charges. They were willfully discriminated against by railroads and warehouses and by grain buyers in the central markets. In the matter of purchasing supplies, cash had to accompany the order in most cases, so that comparatively few working farmers could take advantage of this plan. At its best the grange movement could do nothing for the marginal farmer, and if it had succeeded, it would have resulted in increasing ground rents and the prices of

farms. The next generation would have found it just so much the more difficult to get access to the soil. Its attempt to eliminate the middle man and his net value from the economic field stamps the grange as a sporadic step in the direction of omnisocialism.

The movement toward trade unionism is somewhat difficult of economic analysis. Its principles have not always been definitely and clearly stated, and its working plan does not always harmonize with the statement of its principles. Nor is the attitude of trade unionism toward current economic conditions always the same. At some times the tendency is toward the strike as the first and most effective means for the enforcement of its demands; at other times it advocates arbitration as the chief means of attaining its ends. At some times it is headstrong, willful and even arrogant; at other times, moderate, conciliatory and even meek in the presentation of its claims for recognition. It is born of false economic conditions, and it adopts the means nearest at hand for opposing these conditions, without any considerable inquiry as to first causes or ultimate remedies. Many of its leaders adopt the views of the standard economists and look upon the conditions which now exist as the natural outcome of a necessary struggle for existence, and maintain that no permanent remedy is either possible or desirable. They utterly ignore the difference between the struggle of man with nature under normal conditions, which uplifts and ennobles him, and the struggle of man with man in abnormal conditions, which degrades and embrutes him. In the midst of a world in which millions are daily in

want or the fear of want, and in which human misery is so great as to convince Professor Huxley that the "advent of some kindly comet which would sweep the whole affair away" would be a desirable consummation in the absence of any other remedy, some of these leaders of labor are actually afraid lest the people might acquire the means of satisfying their desires with too little exertion. Says one of their number:

"Whatever there may be of truth in any and all theories the trade unions will strive to attain, but that there is a final, a full solution of the labor question we deny. * * * To those men and those women who are seeking for a solution of this great labor question in its entirety I would advise that they turn their attention to the problem of perfecting a mechanism for perpetual motion, or seek the fountain of endless youth. I have no hope or even a desire that this great question shall be solved. For should that day ever come to humanity, all incentive for activity and progress would be at an end and the race would either go back to savagery or disappear from the face of the earth."*

In all the realm of literature there is no better special plea for the preservation of the established order substantially as it exists than this. And yet these words were spoken by a man who is the accredited representative of thousands of those victims of the established order who seek relief through trade unionism. His demands at present are higher wages and an eight-hours day. To-morrow and next year the demand will be different, perhaps, if these are attained, but care is to be taken to keep the laborers from acquiring too much leisure.

* John B. Lennon, Secretary Journeyman Tailors' Union of America and Treasurer American Federation of Labor.

The doctrine of the foregoing quotation is based upon the assumption that in order to settle the “great labor question” it is necessary entirely to overcome all the disutilities of matter, space and time, and to reduce all labor-forms to spontaneities. This is not true. Such an assumption fails to make any distinction between the problem of creating satisforms and the problem of distributing them. Political Economy does not exhaust itself with the creation of satisforms. This is primarily a question of industrial science. There has been no lack of progress and successful achievement on that score. The prime question of Political Economy is to determine in what manner satisforms which are created by modern industry can justly be distributed and enjoyed. It is not possible now, and never will be, to produce all satisforms entirely without labor; it is possible now, and ever will be, to divide the products of labor in a just and proper manner. This is the “great labor problem”—to give to the laborer his due under the institutions, laws and customs of society. To hope that the real labor problem may never be solved is to hope that industrial wars shall never cease and that economic justice shall ne’er be done.

The view of the labor problem stated in the above quotation may be that of a few trade unionists who draw salaries fully commensurate with their abilities and services, but it is not that of the rank and file of the men in the trade union movement. They feel, if they do not fully understand, that it is neither the “niggardliness of nature” nor the unalterable decree of evolutionary development that stands in the way of the enjoyment by them of the full

fruits of their labor, but that their condition is the result of institutions, laws and customs of society which are susceptible of change. Their leaders must offer them something more than a perpetual struggle for an eight-hours day and a living wage in order to retain their confidence and support. The great labor problem can be solved—must be solved—but it must be done in such manner as to give to the laborer his due as a matter of right, and not as the result of a continuous industrial warfare with all its wastes, its hardships, and the surrender of individual liberties such as any form of warfare exacts from the members of an organized army. When the laborer has wrested from nature the products of his toil, he is entitled to his reward without engaging in a perpetual warfare with the beneficiaries of legal privilege, however successful he may be in carrying on such war. Success attained in such a struggle is after all an economic failure.

As conducted at present, trade unions are military rather than economic organizations. Men who have no inclination toward them, and even those who are actually opposed to them upon principle are forced to join them in order to get or to retain work and to avoid social ostracism. The unions often enforce their demands by strikes which, even when no violence is used, are almost as destructive to property as war. Like the general of an army, the leader of great labor organizations is necessarily an autocrat. Like any other autocrat he may use his power and authority wisely or unwisely. But in spite of this autocracy where democracy should rule; in spite of the warlike de-

structiveness of strikes; in spite of the arbitrary rules by which trade unions limit the number of apprentices, the number of hours a man may labor each day, the amount which he may do in an hour or a day in a given vocation; in spite of the ostracism of the non-union man, and of the boycott of the business man who, with or without just cause, falls into their disfavor; in spite of all these things and more, if trade unionism could ultimately solve the labor problem; if it could bring about a state of equality of opportunity; if it could destroy all differential privileges; if it could raise the economic margin to its normal position and maintain it there; if it could do any or all of these things, its shortcomings could be overlooked and its methods condoned.

But trade unionism alone can do none of these things. In a thousand years, unaided, it can accomplish not one of these ends. It can not bring about equality of opportunity; for the present inequalities are created or maintained by law, and laws can be changed only by political action. Trade unionism especially disclaims and eschews political action. For the same reason it can not destroy a single differential privilege; at the best it can only make the beneficiary give up to his employes a part of his differential gain. The consumer would still suffer. Labor unionism can not raise the economic margin. The margin has been depressed by conditions pertaining to land tenure, and land tenure is distinctively a matter of law. But aside from these things, trade unionism can never improve the condition of the man who receives the marginal wage. His remuneration is controlled in the labor

market by the product of the self-employed laborer upon the margin, and can not artificially be increased and successfully maintained beyond the value of the product of this marginal laborer.

No movement for the solution of the labor problem, or even for the amelioration of the laborers' condition can long succeed that does not extend to the marginal laborer. He is the marginal buyer and the marginal seller in every general market. He is the determiner of prices of all labor-forms and the ultimate arbiter of all wage questions. If the trade unionist seeks a permanent solution of the labor problem, let him support his organization as faithfully as he may in all its laudable endeavors, but let him never lose sight of the fact that as a trade unionist he is opposing artificial condition with artificial condition, force with force, cunning with cunning. He is a warrior in a war not of his own making nor of his personal fault. While the war lasts it may be his duty to fight. If so, as a trade unionist, let him fight prudently and valiantly. But it is his highest duty as a citizen to enter the field of political action and by his vote to bring about a condition of affairs in which industrial wars will be no more. Let him remember that all industrial wars are man-made, and that in the realm of economics, as in the realm of polities,

"War's a game which, were their subjects wise,
Kings would not play at."

CHAPTER XV.

OF SOCIAL DISUTILITIES.

Man's inhumanity to man
Makes countless thousands mourn.

Robert Burns.

The present wretched social arrangements are the only hindrances to the attainment by almost all of an existence made up of a few and transitory pains and many and various pleasures.

John Stuart Mill.

In the early part of our investigation we found that men seek to satisfy their desires with the least exertion; that the problem of production is to devise ways and means by which all labor-forms may be reduced, as nearly as possible, to spontaneities. Economics gives no countenance to any theory which involves the idea that a given project is to be commended because it "makes work" for the people. In normal conditions all men may find plenty of work. The legitimate question of economic production is not how to make as much work as possible, but how to get the greatest results from a given expenditure of effort.

To the satisfaction of man's desires through the exertion of labor-power nature interposes but three physical disutilities. The external world presents to him material substances suited to his needs, but seldom in the form of spontaneities. The matter which he proposes to put

to use must first be changed in form; or it must be removed to another place; or a certain time must elapse before it can be utilized. Usually all of these elements are involved, though one or the other distinctively preponderates. These natural checks upon enjoyment which would otherwise be spontaneous we have called, respectively, the disutilities of matter, space and time.

The distinctive problem of industry lies in overcoming the disutility of matter. By mastering the laws of matter and force—two phases of the same thing, although apparently opposite in character—men may not only avoid many of the resistances of the physical world, but may even turn destructive forms and forces into beneficent agencies of production.

The distinctive problem of exchange is to overcome, as nearly as possible, the disutilities of space and time. From an economic point of view the problem of industry is comparatively simple. It involves chiefly the laws and processes of the physical world. But exchange is more extensive in its scope and more complex in its details. It directly involves the question of interest, a question which, in the absence of the market, would never appear at all. It first brings into existence and then forces into the highest prominence the phenomenon of ground rent.

As soon as men begin to coöperate in industry and to compete in exchange the disutilities of matter, space and time begin to assume a social aspect. In normal conditions one man ceases to produce upon his own account, and enters the employment of another. The question of his compensation at once arises. He naturally asks as

much as he could obtain by self-employment, and need accept no less. The question of wages emerges, but at this stage it is simplicity itself.

Soon one man loans certain labor-forms to another engaged in industry and thus enables the latter to overcome the disutility of time by eliminating the necessity of waiting for results in some process of production. Economic interest here emerges. Finally two men want to occupy the same land-form at the same time, and the disutility of space forbids. One of them gets possession and is powerful enough to retain it. The other offers him a price temporarily to surrender his advantage. Thus ground rent emerges.

In all of these instances it will be noted that while the several disutilities have assumed a social aspect they are, at bottom, disutilities of nature. They are not of man's making. The association of men in production has occasioned the manifestation of wages, ground rent and interest, but has not primarily caused the disutilities of matter, space and time.

When government has been instituted among men the State, by means of its institutions, laws and customs, may affect disutilities in three different ways. It may bring all men into such economic relations with one another and with their physical environment as to lessen all physical disutilities to all the people; or it may favor some men at the expense of others so that the disutilities of nature will be lessened as to the former and increased as to the latter; or it may create new disutilities by putting upon a part or all of the people burdens of which nature itself

is innocent. We shall discuss these attitudes of government toward people and property in inverse order.

A man is born into the world, and in his infancy is not distinguishable from a thousand others. His parents may be people of riches, of ordinary comfort, or of poverty; of culture, of common education, or of ignorance. He grows to manhood in association with his fellows having, in common with them, the heritage of all the history, the achievements and the progress of the race. He is educated in the public schools. In his mature years he invents a machine or a process which greatly diminishes the disutility of performing a certain task. In ordinary circumstances his invention would at once become common property, and all might equally benefit thereby. Nature says to this man that by his invention he has simply interpreted aright a natural law—a law which he did not create and which he is powerless to change. The accumulated wisdom and progress of centuries has enabled him to do this. His immediate environment led him to concentrate his thought upon it. In the desert of Sahara or the wilds of Siberia his feat would have been impossible. Having inherited from all the past, he, in his turn, is enabled to add to the legacy of the race.

In normal conditions all men would be free to adopt this invention and thus obey the economic law of gravity by which they are impelled to satisfy their desires with the least exertion. But the State interposes an artificial disutility. It grants to this inventor a patent, by virtue of which he can prevent his generation from using this improvement in production at all unless he chooses to

put it upon the market. If he puts it upon the market, he or his assigns—usually the latter—are enabled to erect and maintain an artificial barrier between the people and the greatest satisfaction of their desires.

In justification of this arbitrary action of the State, it is claimed that patent laws are necessary to encourage invention. There is nothing to support this contention. Inventors are born, not brought into existence by bribery. A real inventor needs no more incentive to bring forth the child of his brain than to propagate his race.

But even if this claim were true, the existing patent laws are wholly unjustifiable. If the present generation is indebted to one of their number for giving concrete expression to a new thought, let the generation as a whole pay him a bounty, having some relation to the benefit which he confers. Or, let it fix upon a royalty which any one may pay or secure to the inventor, and then manufacture or use the patented article or process to his heart's content. By the existing laws the State gives to the inventor letters of marque and reprisal against the industry and commerce of its own citizens. This is indefensible as a matter of politics as well as of economics. A patent right is an artificial disutility created by the State, and under bisocialism it would be destroyed entirely, or it would be socialized; it would not be allowed to interfere with the productive enterprise of any individual in an arbitrary manner.

Another form of the same kind of artificial disutility created by the State is manifested in the law of copyright. No book of merit was ever written under the inspiration

of a copyright, nor ever will be. If the State is to make a discrimination in favor of authors, let it do so in the form of socialism. If their work is distinctively a common benefit, let the disutility of maintaining this benefit be socialized like the cost of maintaining the public schools. Let us have systemic socialism—not sporadic socialism here, and the worst form of economic privateering there, in regard to matters of the same economic import.

Patents and copyrights do not constitute the only forms of social disutility, nor the worst. A man near the political boundary of the State creates a labor-form or raises a crop and can get the greatest satisfaction of desire by exchanging his product for that of another producer across the border. But the State says, Nay! It erects between these two men a legal barrier which separates them as effectually as would a chain of mountains. The economic law of gravity bids them exchange their products. If they obey its dictates, they are arrested and brought into the courts of their respective countries. Economics says to them, as they stand at the bar: "Well done, thou good and faithful servants. Go thou and create other utilities, and exchange thy products freely." But the State sends them to jail.

A man earns a competence, and thinks that he can satisfy his desire for scenery and recreation better in a foreign country than in his own. The State permits him to go. While there he sees manufactured products of his own country for sale much cheaper than at home. When he prepares to return he sees that he can satisfy his

desire for certain articles of apparel, jewelry or whatnot, with less disutility by buying the desired articles abroad than by buying them at home. He obeys the economic law of gravity. But when he arrives at port in his own country he is met by men who search his person, ransack his baggage, and often administer an oath with one hand while extending the other for a bribe. After such an experience he goes forth feeling either that he has been unjustly despoiled, or that he has committed the crimes of perjury and bribery. Such a system constantly puts before the custom house officers and employes the greatest temptations and incentives to venality, and leads men to the corrupt practices of perjury and bribery who would scorn such deeds in the ordinary affairs of business life. But even when honestly administered and scrupulously obeyed, tariff laws are a source of untold annoyances, hardships and extortions.

"On the slightest suspicion that a passenger has concealed dutiable goods, the law gives absolute power to the customs officers to strip the suspected person naked; and this power is habitually exercised. * * * The oppressions which have been practiced upon millions of poor immigrants arriving in the United States have never been even faintly described. For many years it was the uniform practice to make them pay enormous taxes upon every article, however trifling, which they had not actually used and soiled. Cases are well known in which a poor woman, who had only one pair of stockings (which she had kept clean for landing, going barefoot on the ship) was taxed 80 per cent on this pair; and men having only two suits of clothing have been taxed upon one suit more than it cost. Nine officers reported their names for honorable mention, on their joint seizure of two yards of flannel, which a poor Irish woman kept clean until her arrival. These are

but small instances of vast numbers of similar petty and contemptible extortions which are carried on, not from corrupt motives, but in zeal for the enforcement of crooked taxation."*

But the inequities of tariff legislation are not confined to those who live near the political border, those who go abroad, and those who immigrate. Every man and woman in the land is a victim. If a tariff is laid upon a satisfactor which is not produced in this country, the disutility of satisfying a desire is artificially increased to all the people. If a tariff affects satisfactions produced here, the competition of foreign trade is restricted and more must be paid for such satisfactions, whether domestic or imported. Two economic evils arise from this fact. The natural law of the market which reflects the price fixed by the marginal pair is interfered with, the price is artificially maintained, and all the people lose the benefit of the socialization of utility which would otherwise result from a lower price. Again, the disutility to the people as consumers is not confined to the payment of higher prices for imported satisfactions. All domestic satisfactions of the same class are sold at a price artificially raised and maintained by the curtailment of full and free competition. It is not simply the amount of the tariff taxes that is taken from the people. The money paid out in higher prices for domestic satisfactions is often double, and not infrequently is five or six times the amount received by the government as revenue.

It is claimed that the money thus received by manufacturers in the higher prices of domestic products is paid

* Thomas G. Shearman: *Natural Taxation*, pp. 20, 21.

out again to domestic laborers in higher wages. If this were true, it would furnish no economic justification for the tariff system; it does not pay to rob Peter to pay Paul. But it is not true. Wages are determined by the return to self-employed labor upon the economic margin, and every differential privilege granted to others tends to diminish the opportunity of the marginal producers. If there were any increase in the marginal return because of the tariff, it would be swallowed up in ground rent, under existing land tenure. In a new country, such as the United States, general wages may be relatively high in spite of tariff laws, but never *because* of them.

The people of any country are entitled to receive and to pay the normal marginal wage for each respective kind and class of labor—no more, no less. Producers are entitled to receive, and consumers to pay, the normal marginal price for all trade-forms and satisforms—no more, no less. All the people are entitled to all the benefits of all the socialization of utility which a normal market affords. They are entitled to economic as well as to personal and political liberty. They are entitled to apply their labor-power to their physical environment without the interposition of any artificial barriers; and having done this, they are entitled to exchange their products where and with whom they please. When they have overcome the disutilities of nature and have surmounted the barriers of mountain and sea, they have done all that economics or the law of evolutionary development demands.

It is no defense of the tariff system to say that the

State is required to create and maintain these artificial disutilities in order to provide for itself a revenue. Nature has provided the State with a source of revenue distinctively its own. The land-forms of every country are recognized as having been originally the property of the whole people. In the first instance, land-forms have always been held by the people in their collective capacity or by the government representing the sovereignty of the State. The value of the land-forms of any country is the concrete expression of the measurable benefits which society as a whole confers upon its individual members. This value is unearned by the people in their individual capacities. It is a collective product, and belongs of right to the people as a whole. To take ground value from the individual who has distinctively done nothing to create it is not to add a single disutility to his productive efforts. It simply puts him upon a par with the man who produces upon the marginal natural opportunity. It equalizes the disutilities of production, leaving to the individual every increment of utility which is distinctively his own. Said John Stuart Mill:

"Suppose that there is a kind of income which constantly tends to increase, without any exertion or sacrifice on the part of the owners; those owners constituting a class in the community, whom the natural course of things progressively enriches consistently with complete passiveness on their own part. In such a case it would be no violation of the principles on which private property is grounded, if the State should appropriate this increase of wealth, or part of it, as it arises. This would not properly be taking anything from anybody; it would merely be applying an accession of wealth, created by circumstances, to the benefit of society, instead of allowing

it to become an unearned appendage to the riches of a particular class.

"Now this is actually the case with rent. The ordinary progress of a society which increases in wealth is at all times tending to augment the incomes of landlords; to give them both a greater amount and a greater proportion of the wealth of the community, independently of any trouble or outlay incurred by themselves. They grow richer, as it were, in their sleep, without working, risking or economizing. What claim have they, on the general principle of social justice, to this accession of riches? In what would they have been wronged if society had, from the beginning, reserved the right of taxing the spontaneous increase of rent, to the highest amount required by financial exigencies?"*

This language is used by Mill in an argument favoring the appraisal of all the lands in England with a view thereafter to take all increase of ground value for the purposes of public revenue.

If this plan were adopted in the United States, then to the amount of the future increase of ground values taken for revenue, the disutilities of taxation upon labor values and capital values would cease. The evils of the tariff system would be lessened, but not destroyed. Such a step, if taken, would be in the right direction, but it would be only a step. It would tend to raise the economic margin, but it could not restore it to its normal position. It would afford no opportunity for the raising of the normal margin itself. In order to do this, all ground values must be socialized and public utilities must be conducted upon a flat rate basis covering only actual

* *Principles of Political Economy*, Vol. II, Book V, Ch. 11,
§ 5.

cost; or, better yet, all such utilities should be free in order to overcome, so far as possible, the disutility of space; for the element of transportation enters into all public utilities.

Great as are the disutilities imposed upon production by the present system of taxation, their direct effects are small compared with the disutilities of the established system of land tenure. In order to satisfy his desires by the exertion of labor-power, a man must have access to the opportunities afforded him by nature—at least for standing room. No matter what may be his energy, ability and skill; no matter to what extent these may be supplemented by the use of capital-forms, he is helpless unless he can have access to some land-form. If he is denied all access to land-forms, he is confronted with an absolute disutility and must perish. If he is denied access to all desirable land-forms except upon payment of rent, then to this extent a disutility is placed upon the net effectiveness of his labor and capital; to this extent his labor values and capital values must be reduced.

To a certain extent, however, this disutility is produced by nature. It can not be evaded entirely. Two men can not have the exclusive possession and use of the same land-form at the same time; and under a commercial system the man who is permitted to possess and enjoy a desirable land-form must pay ground rent or ground value to some man, or to some body of men, for the differential privilege. Ground value is simply capitalized ground rent paid in advance. In a competitive system of industry, ground rent in one form or the other is a fixed charge upon

production. It must be paid, and its payment reduces the rewards of labor and capital by just so much.

Again, the expenses of government constitute a fixed charge upon the values created by the people, and must be paid out of the results of current production. In the established order the disutility of ground rent is borne by the people, and is paid by them out of the rewards of their industry to the private owners of the land. The disutility of supporting the government is also borne by the people, and practically from labor values and capital values. The amount now contributed by land owners, as owners, is doubtless more than offset by the sums exacted from the people in indirect taxation which never reach the public treasury at all. So that, on the whole, labor and capital are now called upon to meet first the disutility of ground rent, and then the disutility of the maintenance of government.

In the régime proposed by bisocialism labor and capital will be entirely relieved of one of these great disutilities. Producers will continue to pay ground rent, to the extent of its present worth, each year. But this will be paid directly into the public treasury in lieu of all other forms of taxation. Instead of supporting a class of landlords who, as stated by Mill, "grow rich as it were in their sleep, without working, risking or economizing," and also supporting and sustaining the government, capital and labor need only support and sustain the government and let the landlords seek investment in productive enterprises. The disutility of ground rent is natural and necessary; the disutility of government is natural and necessary. But

nature has so provided that these disutilities may be met at one and the same time in one and the same way. Ground rent may be taken for revenue. Private landlordism under the present tenure has no basis in nature; it is wholly an artificial disutility, unnecessarily created and maintained by law. It is a social disutility and should be abolished, even if its abolition did not involve the solution of the tariff question and furnish the only natural means of meeting the disutility of the maintenance of government.

It is one of the greatest weaknesses of standard Political Economy that it is forced to maintain that there is no natural system of taxation; that there is no natural source of revenue for the State. As stated by Nordhoff, government is looked upon as a *necessary evil*. This is a conception beside which the anarchistic doctrine that government is an *unnecessary evil* is logic itself. Professor Sumner has said that there are no natural laws of taxation. Professor Perry explicitly declares that there can be no science of taxation; and further, that "Nature has given no whisper, that we can hear, about any taxes."*

To the same effect is the saying attributed to the celebrated Colbert that the act of taxation consists in plucking the geese in such manner as to secure the greatest quantity of feathers with the least possible amount of squawking.

In exact opposition to these views, bisocialism teaches that government is not only necessary, but that, when rightly administered, it is also positively and unquali-

* Perry: *Political Economy*, 581 (20th Ed.).

fiedly good; and that nature has been as beneficent to mankind as to the individual; to the body politic as to the individual body; to the social organism as to the organism of the individual man. Each body, each organism, has a natural source of sustenance. In normal conditions the State is neither a robber, a parasite, nor a mendicant. In normal conditions its economic function is not to create and maintain social disutilities, but to assist all its citizens, in every possible way, to overcome the natural disutilities of matter, space and time.

CHAPTER XVI.

OF SOCIAL SOLIDARITY.

If you pass by the least considerable man, you pass by all the humanities and the divinities, and set your heart on what is transient and cheap. There is a wide ocean of difference between taking in the last man and leaving him out. It is not a question of one man, but of humanity.

Charles Ferguson.

From the time of the advent of man upon earth one question has persistently occupied his attention, and even now most insistently presses for solution. It is this: How can the problem of individual life be made to harmonize with the problem of social life?

When a man in isolation undertakes to satisfy his desires by the application of his labor-power to the land-forms about him, the problem that he must ultimately solve is how to put himself into the best possible relations with his physical environment. At this stage only questions of physical science press for solution. The economic law of gravity impels him to take advantage of all the laws and forces of nature so far as he is able to understand and control them. He seeks to satisfy his desires with the least physical disutility. This economic law of gravity is the basis of all physical progress and is responsible for all growth in the development of physical processes and physical sciences.

But in ordinary circumstances man does not satisfy his

desires in isolation. As soon, however, as production and enjoyment in company with his fellows begins, man is confronted with a social environment of which he must take note either to his advantage or disadvantage. The problem now arising is how to put himself into the best possible relations with his physical environment and his social environment at one and the same time. The simple industrial question begins to assume both an economic and an ethical aspect.

The introduction of his fellow men into his environment necessarily compels him to view the economic law of gravity in the light of the new condition. It does not readily occur to him that the new condition should place a limitation upon the law by which he seeks the highest satisfaction of desire with the least effort. Instead of applying the new condition to this law, he is prone to apply the law to the new condition, and to make of his social environment an instrument for the better satisfaction of his own desires, regardless of the desires of his fellow men. He exercises his labor-power in reducing his fellows to subjection so that he may enjoy the fruits of their labor as well as his own; and finally, so that he may enjoy the fruits of their labor without any irksome effort of his own. In doing this, he may become their ruler as well as task master, and in such case there is introduced to the world a society based upon the lowest of all social ideals, viz., the ideal of self-enjoyment at the expense of others. Out of this ideal, evolved in this way, have grown the social disutilities of chattel slavery, serfdom, the social and economic enslavement of women, monarchy, military despot-

ism, modern wage slavery, private landlordism under the present tenure, protective tariffs, monopolies and all forms of differential power and privilege created and maintained by the institutions, laws and customs of society.

But this barbaric ideal has not been permitted to exist wholly unquestioned and unchecked. Gradually there has come into the minds of men a higher ideal which has found its best expression in the golden rule. This is the ideal of self-enjoyment, not at the expense of others, but at the expense of self. "Do unto others as ye would that others should do unto you." If this ideal were engrafted upon the original ideal of individual selfishness it would change the economic law of gravity into the economic law of equal freedom. The law of equal freedom is that in any state of society every man should be able to satisfy his desires with the least exertion, provided that he does not thereby interfere with the equal opportunity of every other man to do the same.

The ideal of the golden rule—of self-enjoyment at the expense of self, of loving thy neighbor as thyself—was given to the world in its highest form nearly two thousand years ago. A few souls here and there have accepted this ideal and have actually conformed their lives to its teaching. To most men of to-day, however, the golden rule is but a maxim, Christianity is but a cult. As a whole men yet seek to satisfy their desires at the expense of others. The teaching for two thousand years of the sublimest truths within the statement and comprehension of man has resulted in a refinement of the means by which one man may exploit another, but in the realm of economics, men

to-day no more conform to the teachings of the Just One than did the generation that nailed Him to the cross. Everywhere even now there exists want and the fear of want in the midst of plenty; a ceaseless unrest pervades the working classes; with every increase in wages goes an increase of the cost of living; and never in all the history of the world have there existed so many nor such gigantic fortunes based wholly upon differential privilege—upon pure and unmitigated greed—as exist to-day.

But the laws of economic life can not be violated with impunity, even by those who seek to profit by such violation. There is no gain to the beneficiaries of privilege except that which may be measured in dollars and cents, and in the ability to live upon the unrequited labor of others. Riches acquired under the established order do not bring happiness, but power; not pleasure, but leisure; not the leisure of that restfulness which the soul craves, but of restlessness and *ennui*. The man who wears his life away in piling up a fortune for his family is constantly tortured by the thought that his children will lose their inheritance either through their own dissipation or through the knavery and cunning of others. Hard as is the lot of the child born to poverty, his chance of ultimate success in all that makes life worth living is better, on the whole, than that of the child born to wealth and reared in the lap of luxury. Nature has its punishments and its compensations. It were infinitely better for a man to die leaving a son without a dollar in a world of equality of opportunity, than with a million dollars in a world where all natural opportunities have been appropriated, and

where all sorts of differential privileges are created and maintained by the institutions, laws and customs of society; where the whole people, instead of working together for the purpose of overcoming the disutilities of the natural world, are gathered into hostile camps, placing artificial disutilities in one another's way; where in a world in which all might have enough and to spare, the whole tendency of the times is toward the creation and perpetuation of the bitter struggle between those who thrive above and those who exist below the normal economic margin.

As long as the institutions, laws and customs of the established order are maintained in their present form this condition of inequality and differential privilege will continue and its exploitations will increase. The established order offers everywhere a premium upon selfishness; a pecuniary reward to the despoiler of the labors and to the destroyer of the opportunities of others. Not only private individuals, but separate communities look upon one another as legitimate prey in the great struggle for supremacy. Nations eye one another with jealousy mingled with hatred and fear, and enact into their laws so far as they dare the sentiment of Voltaire: "He who wishes the good of his own country must inevitably wish evil to other countries." This is the underlying principle of all so-called protective tariffs. By these tariffs the people of one country seek to satisfy their desires at the expense of the citizens of foreign countries. This is but a social exemplification of the lowest of all economic ideals, viz., self-enjoyment at the expense of others. A nation calling

itself Christian should at least conform, in its national and international polity, to the ideal enunciated in the golden rule—self-enjoyment at the expense of self.

For, mark you, the golden rule is not the basic conception of Christianity. The doctrine of the golden rule was stated, in negative form it is true, but none the less clearly, by Confucius four centuries before the Christian era, and again by Seneca at Rome about the time that Jesus taught in Palestine. The ideal which Jesus distinctively gave to the world is far more sublime than the ideal of the golden rule. It is not satisfied with simple self-enjoyment at the expense of self. It is not based upon self enjoyment at all. It is this: Self-denial for the enjoyment of others; self-sacrifice in order that others may be saved.

This is the highest conception of life that it is possible for man to attain. We have already stated the lowest conception—self-enjoyment at the expense of others. Between these lies the ethical (not religious) conception of the golden rule—self-enjoyment at the expense of self; do as you would be done by. One or the other of these conceptions must distinctively govern every individual life. One or the other of these conceptions must distinctively govern the social and economic life of every people. The State must so create and maintain its institutions, laws and customs that individual life may harmonize with social life. How may this be done?

It will at once be said by some that the State has nothing to do with the religious ideals and practices of its citizens—that in the United States, especially, any action

by state or nation in this behalf is forbidden by the constitution. But in guaranteeing religious freedom the constitution itself has something to do with religion. Any action of the State which tends toward religious freedom is within both the spirit and the letter of the constitution.

The constitution of the United States, and the government under its sanction, now gives to every citizen full liberty to believe and to teach to others the sublime conception of Jesus of self-denial for the good of others; but the institutions, laws and customs of the established order prevent any man from living this ideal. No man can adopt Christianity—real Christianity as Jesus exemplified it—as a life, in present conditions, and socially survive. He will become an outcast, if he follows in the real footsteps of the Master. He will be propertyless and will be cast into prison as a vagrant under the law. He will converse with the fallen woman at the public drinking place, and will say of the woman taken in adultery, Let him that is without sin cast the first stone at her. He will inveigh against the mad struggle for property and power, and advise the rich young man to sell all that he hath and give to the poor. Without hope or expectation of reward he will go about doing good. His words will give offense to those in power, and his mode of life will not conform to the accepted standards. He will lay bare the true inwardness of the hypocrite and drive the modern money changers from the temple. Society will crucify him; he can not live a life of self-denial and self-sacrifice and socially survive.

The reason of all this is that our social life is based not upon the highest of our economic ideals, but upon the

lowest. The conception that it shows more business ability, more practical acumen, to acquire enjoyment at the expense of others than at the expense of self dominates our whole economic system. Out of this conception and the institutions, laws and customs of society based upon it, have grown numerous and flagrant institutional wrongs. Before there can be any permanent relief from existing conditions these social wrongs must be righted. It is not enough to convert the individual and to save him from his own sin as our churches now attempt to do. Laudable as is this attempt in itself, it is inadequate in its scope, and must largely prove unavailing and abortive as long as social wrongs are left untouched. The pulpit can not adequately reach the pew, if the occupant of the latter is either the beneficiary or the victim of an institutional wrong. In vain is preached on Sunday the uplifting doctrine of the fatherhood of God and the brotherhood of man to men who, on week days, are engaged in a desperate struggle, either to take advantage of a social wrong or to escape its terrible injustice. And this is as it should be. Men must learn—not only out of the pulpit, but in it—that from social sin there is no individual salvation.

Men must realize that on the voyage of life we are all in the same boat. In case of shipwreck upon the high seas we honor as a hero the man who does not attempt to save himself until all his shipmates have been provided with the best available means of safety; and, on the other hand, we brand as a coward a man who attempts to save himself regardless of others, and as a fiend one who attempts to take advantage of the weaknesses and misfortunes of

others in order to enhance his own chances of escape. So it must become in the great voyage of life. In a community where injustice prevails and institutional wrongs constantly oppress the weak and unfortunate in this life, the man who selfishly seeks to save his individual soul for a life to come has a soul scarcely worth saving. Let him first seek social salvation at the altar of Justice; he may then with propriety present his individual soul for redemption at the throne of Grace. Let him do what he can to harmonize social life with his highest conceptions of individual life.

In the establishment of this harmony, however, the individual is not all in all. Social wrongs are institutional; the institution, not the individual, is primarily at fault. Social salvation must come through social endeavor. The State—the active agent of the social organism—must do its part. Its part is most important, but it is as simple as it is momentous. It must do three things, and do them completely and well:

The State must prevent its citizens from acquiring self-enjoyment at the expense of others.

The State must compel its citizens to acquire self-enjoyment only at the expense of self.

The State must make it possible (not mandatory) for its citizens to practice self-denial for the good of others—to practice Christianity as a life, not simply to accept it as a cult—and economically and socially survive.

The adoption of the principles and program of bisocialism will enable the State to do all these things. The principles of bisocialism condemn without qualifica-

tion or extenuation the conception that men should seek to satisfy their desires at the expense of others. It incorporates into its economic law of equal freedom the conception that among persons of normal ability and of mature years self-enjoyment should be based only upon selfendeavor. And its ideal is to bring about such a state of society as will enable people to practice the highest virtues without punishment; to attune their lives to the aspiration of the Lord's Prayer: Thy kingdom come * * * on earth as it is in heaven.

The program of bisocialism is in harmony with all these principles. It proposes to put all men upon a basis of equality of opportunity by the socialization of all the differential advantages of nature as fully reflected and measured in ground values. All men thus having equal access to natural opportunities, each must prosper according to his own endeavor. In industry all men will produce upon the level of the man who must occupy the margin. The differential gains of those above the margin, resulting from the use of superior natural advantages, will be appropriated by the State in taxation and expended for the common good. Tenants of superior land-forms under the established order are compelled to pay the value of the advantages of location and fertility to their respective landlords, and thus to put themselves upon the economic plane of the marginal producer. Bisocialism will extend the law of the margin to land owner as well as land user, and in this way all land differentials, as among individuals, will disappear.

Under bisocialism not only will the man who has the

exclusive use or control of a natural opportunity pay for the privilege, but all those who suffer the disutility of standing aside while he uses and enjoys will be compensated through the socialization of ground values. The expenditure of these ground values in improved and cheapened—ultimately free—public utilities, particularly in the matter of transportation, will progressively raise the economic margin. This will improve the condition of the marginal producer, and through him all others will be benefited. Those who are above the marginal producer will not prosper at his expense as now, but only as he prospers and because of his prosperity. Throughout the entire field of industry there will be manifested the feeling of all-in-the-same-boativeness—the elevating influence of social solidarity.

Under bisocialism no man can acquire any artificial advantage over another under the sanction of the law. The State will destroy all existing artificial differentials except such as will expire by limitation within a reasonable time, and will refuse to renew or further to create such differentials. It will profit no man anything under bisocialism to attempt to acquire a differential advantage in the use of land-forms, because the full market value of such advantage will be taken from him annually in taxation.

Nor under bisocialism will it specially profit any community to secure differential advantages in the way of public works or the erection of public buildings. The present day scandals of river and harbor bills and like laws by congress or legislature for the expenditure of public moneys will cease. The financial benefits to be

derived from such expenditure will at once be reflected in the ground values of the favored community, and its people, in the course of years, will pay into the public treasury the full equivalent of all the financial or measurable benefits received. If one city prospers more than its neighbors, its prosperity will be exactly registered in its ground values, and in their socialization through national and State taxation all less fortunate cities will share.

Under bisocialism the selfishness which now impels men to violate the economic law of equal freedom, and to satisfy their desires at the expense of others will have no sanction in the institutions, laws and customs of society. That which a man may gain through inequality of opportunity will either be forbidden or it will be socialized through the public appropriation of ground value. In the same way the selfishness which now impels communities to secure differential advantages by means of national and state appropriations of public funds will be thwarted, and persons and communities alike will come to realize that, advantage or no advantage, appropriation or no appropriation, all must give an exact equivalent for what they get. When this is once perceived and thoroughly understood, people individually and collectively for selfish reasons will drop their selfishness, and will set themselves to inquire how they can best do something for the benefit of those who occupy the margin.

In the play and interplay of the forces governing the established order the sordid selfishness of man is dominant and generates untold individual suffering and social wrong. But when the laws of industry and exchange are

understood aright, the selfishness of man will save him—individually and socially. He can then become free without placing his fellows in bondage; he can put away care without becoming a vagabond and with increase of self-respect; he can coöperate with his fellows, live without strife, and laugh at want and the fear of want—and still be a human being. He can make the selfsame selfishness which curses him to-day bless him to-morrow.

In order to attain the economic redemption of man it is not necessary to eliminate from his life the element of selfishness, nor to change human nature in the slightest degree. It is necessary only to realize the essential element in the law of economic life. The economic forces of this world are so ordered, and their benefits so bestowed, that true egoism and the highest altruism are extremes that meet. Constantly to increase the opportunities of the man who is at the bottom of the economic scale is at once the most selfish and the most unselfish of all economic polities. Even as Jesus said to His disciples, "He that is least among you all, the same shall become great," so Economic Science says to its votaries: *Behold the MAN AT THE MARGIN! LET HIM REIGN!*

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